

# Executive Summary

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This report provides a review and evaluation of Kentucky General Fund and Road Fund for Fiscal Year 2005 (FY05). General Fund receipts totaled \$7,645.0 million for the entire fiscal year, increasing from FY04 by 9.6

percent. This represents \$667.4 million more than reported receipts for FY04, and was \$195.1 million above the official estimate for FY05.

(The official estimate is the January 2005 consensus revenue estimate modified by changes enacted by the 2005 General Assembly.) For the fourth quarter of FY05, General Fund revenues rose 12.8 percent, and revenues were \$2,141.1 million.

Road Fund receipts in FY05 totaled \$1,126.6 million, an increase of 0.9 percent from FY04. This is \$9.9 million more than reported for FY04, and \$6.9 million above the consensus forecast for FY05.

## Fourth Quarter FY05

The fourth quarter of FY05 saw revenues expand by 12.8 percent overall. Among the individual accounts, strong growth was seen in nearly every major category. Sales and use tax revenue was up 6.0 percent, and individual income taxes rose by 8.3 percent. Corporation income and license tax receipts posted growth of 50.2 percent during the fourth quarter. Coal severance taxes advanced by 24.8 percent. Cigarette taxes rose by 391.9 percent as a result of a rate increase effective June 1, 2005.

Property taxes were up by 4.8 percent. Lottery receipts were up by a slight 1.2 percent, as unexpected prize expenses depressed dividends to the state. All other accounts in the General Fund combined for growth of 8.1 percent.



*Fiscal Year*  
**2005**

The Road Fund posted a growth rate of 3.7 percent in the fourth quarter, with total revenues of \$298.9 million. During the fourth quarter,

motor fuels taxes rose by 6.9 percent, and the motor vehicle usage tax was down by 3.2 percent. Weight distance tax receipts were up by 2.0 percent, and motor vehicle license taxes rose by 5.5 percent.

## Annual Totals, FY05

The General Fund grew by 9.6 percent in FY05, compared to growth of 2.9 percent in FY04, with total receipts of \$7,645.0 million. Sales taxes were up by 6.0 percent, and the individual income tax grew by 8.6 percent. Corporation income and license taxes rose sharply, up by 43.3 percent. Individual income taxes and corporation income taxes were affected by *JOBS for Kentucky*, a tax modernization package enacted by the 2005 General Assembly. Specifically, the taxation of income arising from pass-through entities was shifted from the individual to the corporation, which had a slight effect on revenues in FY05. Overall, however, growth in corporation income taxes was in line with experiences in other states and the federal government.

Coal severance taxes rose by 25.0 percent, and cigarette taxes grew by 97.1 percent due to a rate increase that was included in the *JOBS for Kentucky* package. Property taxes were up by 5.3 percent. Lottery revenues dipped by 7.2 percent due to unanticipated prize expenses. All other categories of General Fund revenue accounts combined for growth of 5.8 percent.

General Fund collections exceeded the official revenue estimate by \$195.1 million in FY05, which is 2.6 percent more than forecasted. Three-fourths of the General Fund was collected through the individual income tax and the sales tax, with the corporation income and license taxes making up the next-largest portion at eight percent.

During the fiscal year, growth in General Fund revenues was consistently strong, and the second half of the year saw higher growth rates. In the first quarter, growth was 8.2 percent, rising to 12.8 percent in the final quarter. Compared to economic growth as measured by estimated growth in Kentucky personal income, General Fund growth was nearly double, at 9.6 percent versus 5.6 percent personal income growth.

**Table 1**  
**Total Receipts**  
**(mil \$)**

|              | <b>FY05</b>    | <b>FY04</b>    | <b>(%)</b> |
|--------------|----------------|----------------|------------|
|              |                |                | <b>Chg</b> |
| General Fund | 7,645.0        | 6,977.6        | 9.6        |
| Road Fund    | <u>1,126.6</u> | <u>1,116.7</u> | <u>0.9</u> |
| <b>Total</b> | <b>8,771.6</b> | <b>8,094.3</b> | <b>8.4</b> |

The Road Fund expanded by 0.9 percent during FY05, with total receipts of \$1,126.6 million. Most of the growth was in motor fuels taxes, which rose by 6.7 percent due to

a rate increase that was tied to the price of gasoline. On the other hand, motor vehicle usage tax revenue slipped by 5.1 percent. The weight distance tax grew by 4.4 percent, and motor vehicle license tax fell by 1.6 percent.

Overall, the Road Fund exceeded the official revenue estimate by \$6.9 million, or 0.6 percent. Over four-fifths of revenues were collected through the motor fuels tax and motor vehicle usage taxes.

During the fiscal year, Road Fund revenues strengthened from losing 2.6 percent in the first quarter to rising by 3.7 percent in the final quarter.

## The Economy

U.S. economic growth as measured by real gross domestic product (GDP) was 3.8 percent in both the final quarter as well as entire year of FY05. Strength in consumption as well as business investment was chiefly responsible for the expansion. U.S. personal income, a measure of spending power, grew by 6.6 percent in FY05, and by 6.8 percent in the fourth quarter. Employment swelled by 1.6 percent for the year, and by 1.6 percent in the final quarter.

Kentucky's economy as measured by total personal income grew by 5.6 percent to reach \$118.3 billion in FY05. For the fourth quarter, personal income was higher by 6.0 percent. Growth was highest during the second quarter, when it reached over 12 percent compared to a year earlier. Kentucky's personal income growth has tracked growth in US personal income closely since 2000.

Employment growth in Kentucky lagged US employment growth slightly in FY05. Nonfarm employment rose by 0.9 percent in FY05, and in the last quarter it was up by 1.2 percent. Total gains for the fiscal year were 15,800 jobs. During FY05, Kentucky employment had yet to reach its pre-recession employment peak that was seen in FY01. Largest employment gains were in the service-providing sectors which rose by 1.1 percent versus growth of 0.7 percent in the goods-producing sectors. Employment in government grew by just 0.2 percent.

### Interim Outlook

In the next three fiscal quarters (through the FY06 third quarter) General Fund growth is expected to reach 9.2 percent with total revenues of \$6,011.9 million. Sales and use tax receipts are forecasted to rise by 5.0 percent. Individual income tax revenues should decline by 5.5 percent as a result of changes enacted in *JOBS for Kentucky*. The counterpart to this is an anticipated increase in corporation income taxes of 106.2 percent. Reclassification of income earned by pass-through entities to the corporation income tax instead of the individual income tax accounts for the bulk of the increase.

Coal severance tax revenue is forecasted to rise by 15.7 percent. Cigarette taxes, due to a rate increase from 3 cents to 30 cents

per pack, will jump by over 1,000 percent and will become a major source of revenue for the state for the first time. Property taxes are projected to grow by 2.5 percent, while Lottery receipts should decline by 1.5 percent. "Other" revenues will combine for a rise of 7.8 percent, principally due to changes included in *JOBS for Kentucky*.

The Road Fund is forecasted to grow by 4.5 percent in the first three quarters of FY06. Motor fuels taxes should expand by 6.7 percent due to a formula-driven increase in the rate tied to the price of gasoline. Motor vehicle usage tax revenue is projected to climb by 1.5 percent in the first three quarters. Weight distance taxes are estimated to rise 1.8 percent, motor vehicle license taxes should fall 2.3 percent, and investment income will grow by 8.7 percent. All other accounts in the Road Fund are forecasted to combine for an increase of 4.5 percent.

The outlook for the economy in the first three quarters of FY06 is for a slight deceleration from the growth seen in FY05, with real GDP growth of 3.3 percent over the period. U.S. personal income should rise by 5.9 percent, and Kentucky personal income is forecasted to grow by 5.2 percent. Employment growth is expected to pick up in the first three quarters of FY06 with an increase of 1.7 percent.



**I.**  
***Fiscal Year 2005***  
***General Fund and Road Fund Receipts***



# Review of General Fund & Road Fund Receipts

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## GENERAL FUND

### Fourth Quarter, FY2005

General Fund receipts in the fourth quarter of FY05 totaled \$2,141.1 million compared to \$1,897.5 million in the fourth quarter of FY04, for a net gain of 12.8 percent. Collections in the major revenue categories are shown in summary form in Table 2. Detailed information on these and other accounts is available in Appendix A.

Changes in tax laws due to the passage of HB 272 (*JOBS for Kentucky*) had a minor impact on collections during the fourth quarter. Principal changes affecting revenues were in the areas of the cigarette tax, and in individual and corporation income taxes. These changes will be discussed below in the appropriate category. Variations in the quarterly receipts are often affected by differences in the timing of payments into and refunds out of revenue accounts. In the fourth quarter, individual and corporation income taxes were affected to a degree by these timing changes.

The sales and use tax posted a healthy growth of 6.0 percent in the fourth quarter of FY05. Receipts of \$660.0 million compare to the \$622.8 million collected in the fourth quarter of FY04.

Individual income tax receipts gained 8.3 percent in the fourth quarter of FY05, compared to a growth of 5.9 percent in the fourth quarter of FY04. Receipts of \$895.3 were \$68.9 million more than was

collected in the fourth quarter of the previous fiscal year. Changes enacted by *JOBS for Kentucky* shifted some receipts in June from this source to the corporation income tax, but the amounts were not enough to overwhelm the growth in revenue.

Corporation income and license taxes posted robust growth of 50.2 percent during the fourth quarter of FY05. Receipts totaled \$290.5 million compared to the \$193.4 million received a year earlier. Corporation income taxes were boosted by the shift in revenues from the individual income tax, but growth also appears to be higher due to corporate tax liabilities. Corporate license tax revenues declined in June, but despite this the category saw healthy gains.

The coal severance tax continued its recent rapid ascent by climbing an additional 24.8 percent in the fourth quarter. Coal prices have escalated sharply in tandem with other energy prices, and this has boosted severance tax revenues. Receipts of \$53.7 million compare to \$43.1 million collected in the fourth quarter of FY04.

Until this quarter, cigarette taxes represented only a minor portion of General Fund revenues and were not described explicitly in the quarterly report. Cigarette taxes rose sharply in the fourth quarter due to the changes enacted by *JOBS for Kentucky*. Receipts of \$21.7 million were 391.9 percent greater than collected in the fourth quarter of FY04. Cigarette taxes included in the General

**Table 2**  
**Fourth Quarter, FY05**  
**(mil \$)**

|                      | <b>FY05</b>    | <b>FY04</b>    | <b>Diff<br/>(\$)</b> | <b>Diff<br/>(%)</b> |
|----------------------|----------------|----------------|----------------------|---------------------|
| Sales and Use        | 660.0          | 622.8          | 37.2                 | 6.0                 |
| Individual Income    | 895.3          | 826.4          | 68.9                 | 8.3                 |
| Corp. Inc. & License | 290.5          | 193.4          | 97.1                 | 50.2                |
| Coal Severance       | 53.7           | 43.1           | 10.6                 | 24.8                |
| Cigarette Taxes      | 21.7           | 4.4            | 17.3                 | 391.9               |
| Property             | 51.0           | 48.6           | 2.4                  | 4.8                 |
| Lottery              | 41.5           | 41.0           | 0.5                  | 1.2                 |
| Other                | <u>127.4</u>   | <u>117.8</u>   | <u>9.6</u>           | <u>8.1</u>          |
| <b>TOTAL</b>         | <b>2,141.1</b> | <b>1,897.5</b> | <b>243.6</b>         | <b>12.8</b>         |

Fund are from the original cigarette excise tax of 3-cents per pack and two taxes enacted in the most recent General Assembly: the 26-cent per pack surtax, and the cigarette floor stock tax. The floor stock tax was a one-time tax levied on cigarettes held in inventory on midnight, May 31, and is payable in three installments. The June installment will be followed by payments in July and August. The cigarette surtax was effective on June 1.

Property Taxes were up by 4.8 percent in the fourth quarter of FY05. Collections of \$51.0 million compare to \$48.6 million received in the final quarter of the prior fiscal year.

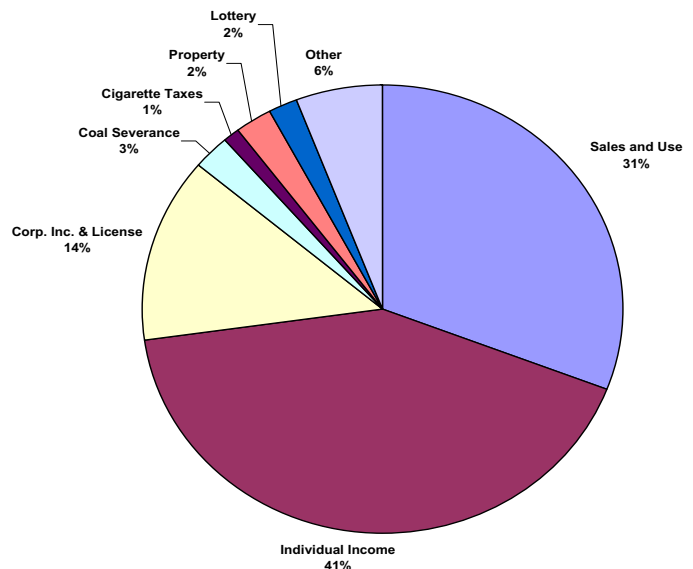
Lottery receipts rose by 1.2 percent in the fourth quarter of FY05 with revenues of \$41.5 million. Lottery revenues were affected by unexpected prize payouts during the fourth quarter that reduced net dividend payments to the state.

The “other” category represents the remaining accounts in the General Fund, and combined for growth of 8.1 percent with receipts of \$127.4 million.

Figure A details the composition of fourth-quarter General Fund receipts by tax type.

Over 71 percent of General Fund revenues were produced by the individual income tax and the sales tax. The next-largest source of revenue was the combination of the corporation income tax and the corporation license tax. “Other taxes” combine for the next-largest source. The largest components in this category include insurance premium taxes, beer wholesale sales tax, the natural gas severance tax, investment income, departmental fees, and fines and forfeitures. Coal severance taxes composed three percent by virtue of their recent rise. Property taxes made up just two percent of the General Fund in the fourth quarter as most of the revenue from this tax was received earlier in the fiscal year. Lottery revenues were also two percent of the General Fund. Cigarette taxes, which also have risen recently due to the increase in rate, comprise just one percent in the fourth quarter, but are destined to produce a larger share of the General Fund in future quarters.

**Figure A**  
**Composition of Fourth Quarter FY05**  
**General Fund Revenues**





## ROAD FUND

### Fourth Quarter, FY05

The Road Fund posted growth of 3.7 percent in the fourth quarter of FY05. Receipts totaled \$298.9 million compared to the \$288.2 million received in the fourth quarter of last year. Summary data are contained in Table 3 and detailed data are shown in Appendix A.

Motor fuels and motor fuels use tax receipts increased 6.9 percent during the fourth quarter of FY05. Receipts were \$126.4 million and compare to \$118.2 million collected during the fourth quarter of last year. Motor fuels tax revenues were affected by an increase in the rate of one cent per gallon that was not in effect in the final quarter of FY04.

Motor vehicle usage tax receipts declined by 3.2 percent during the fourth quarter. Receipts were \$105.4 million compared to \$109.0 million collected during the same period last year. Motor vehicle usage taxes were adversely affected not only by lower sales but also by an administrative decision to allow a credit against this tax for cars

purchased in Indiana, which has begun collecting a tax on cars purchased within its borders by Kentucky residents.

Weight distance tax receipts of \$20.7 million showed a modest growth of 2.0 percent over receipts of \$20.3 million during the fourth quarter of last year.

Motor vehicle license tax receipts increased by 5.5 percent during the fourth quarter of FY05. Receipts of \$31.1 million compare to \$29.5 million received during the fourth quarter of FY04. Investment income rose sharply in the fourth quarter, yielding \$3.2 million versus only a little more than \$100,000 in the fourth quarter of FY04. This represents a growth rate of 2,681.7 percent. Higher balances in the Road Fund are responsible.

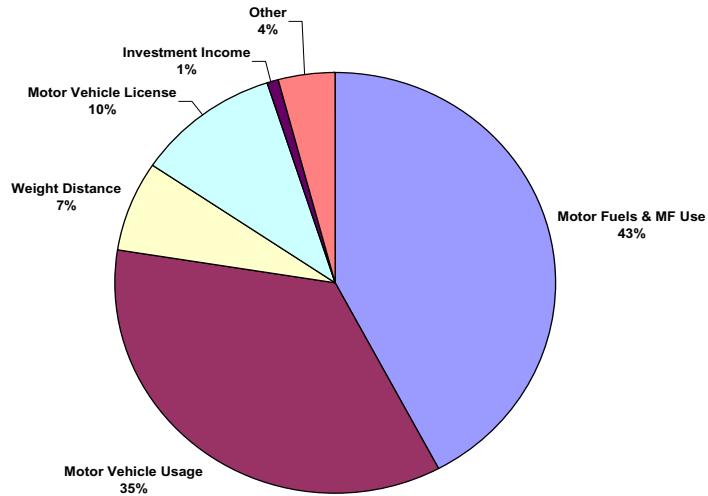
The remainder of the accounts in the Road Fund combined for an increase of 9.0 percent. Receipts for the "Other" category totaled \$12.1 million during the fourth quarter, compared to \$11.1 million in the fourth quarter of FY04.

Figure B details the composition of Road Fund revenues by tax type in the fourth quarter of FY05. Motor fuels taxes and motor vehicle usage taxes comprised 78 percent of Road Fund revenues in the fourth quarter. The next-largest sources of revenue were motor vehicle license taxes with 10 percent, followed by weight distance taxes with seven percent. The "other" category accounted for four percent, while investment income was one percent.

**Table 3**  
**Summary Road Fund Receipts**  
**Fourth Quarter, FY05**  
**(mil \$)**

|                       | <b>FY05</b>  | <b>FY04</b>  | <b>Diff<br/>(\$)</b> | <b>Diff<br/>(%)</b> |
|-----------------------|--------------|--------------|----------------------|---------------------|
| Motor Fuels & MF Use  | 126.4        | 118.2        | 8.2                  | 6.9                 |
| Motor Vehicle Usage   | 105.4        | 109.0        | -3.6                 | -3.2                |
| Weight Distance       | 20.7         | 20.3         | 0.4                  | 2.0                 |
| Motor Vehicle License | 31.1         | 29.5         | 1.6                  | 5.5                 |
| Investment Income     | 3.2          | 0.1          | 3.1                  | 2,681.7             |
| Other                 | 12.1         | 11.1         | 1.0                  | 9.0                 |
| <b>TOTAL</b>          | <b>298.9</b> | <b>288.2</b> | <b>10.7</b>          | <b>3.7</b>          |

**Figure B**  
**Composition of Fourth Quarter FY05**  
**Road Fund Revenues**



## ANNUAL TOTALS

### Full Year FY05

#### General Fund

The General Fund grew by 9.6 percent in FY05, compared to growth of 2.9 percent in FY04. Receipts totaled \$7,645.0 million compared to \$6,977.6 million for the previous year. Collections in the major revenue categories are shown in summary form in Table 4. Detailed information on these and other accounts is available in Appendix A.

The year began with strong growth that further strengthened as the year progressed. Changes in tax laws due to the passage of HB 272 (*JOBS for Kentucky*) had a minor impact on collections during the fiscal year. Principal changes affecting revenues were in the areas of the cigarette tax and in individual and corporation income taxes. These changes will be discussed below in the appropriate category.

**Table 4**  
**FY05 General Fund Revenues Compared to Previous Years**

|                      | Million \$     |                |                | Growth Rate % |            |            |
|----------------------|----------------|----------------|----------------|---------------|------------|------------|
|                      | FY05           | FY04           | FY03           | FY05          | FY04       | FY03       |
| Sales & Use          | 2,595.0        | 2,447.6        | 2,364.2        | 6.0           | 3.5        | 2.8        |
| Individual Income    | 3,036.2        | 2,796.3        | 2,746.4        | 8.6           | 1.8        | 1.6        |
| Corp. Inc. & License | 612.6          | 427.4          | 430.6          | 43.3          | -0.7       | 32.5       |
| Coal Severance       | 184.4          | 147.5          | 141.7          | 25.0          | 4.1        | -11.5      |
| Cigarette Taxes      | 33.7           | 17.1           | 16.4           | 97.1          | 4.3        | 17.4       |
| Property             | 472.6          | 448.8          | 434.8          | 5.3           | 3.2        | 0.4        |
| Lottery              | 161.3          | 173.8          | 171.0          | -7.2          | 1.6        | 1.2        |
| Other                | <u>549.2</u>   | <u>519.1</u>   | <u>478.4</u>   | <u>5.8</u>    | <u>8.5</u> | <u>4.8</u> |
| <b>TOTAL</b>         | <b>7,645.0</b> | <b>6,977.6</b> | <b>6,783.5</b> | <b>9.6</b>    | <b>2.9</b> | <b>3.4</b> |

The sales tax growth rate for FY05 was 6.0 percent, and compares to growth for FY04 of 3.5 percent. Receipts of \$2,595.0 million compare to prior year receipts \$2,447.6 million.

The individual income tax posted healthy growth, following a slight gain in FY04. The growth rate for FY05 was 8.6 percent, compared to 1.8 percent growth in FY04. Receipts totaled \$3,036.2 million and compare to \$2,796.3 million collected last year. Individual income tax revenues were slightly reduced by HB 272; the estimated impact for the fiscal year is minus \$25.0 million.

Corporation income and license taxes rose sharply in FY05, registering growth of 43.3 percent. Receipts totaled \$612.6 million and compare to \$427.4 million collected during the prior fiscal year. Growth in corporate taxes was mildly boosted by *JOBS for Kentucky*, which reassigned tax payments for pass-through entities (S-corporations, LLCs, etc.) from the individual income tax to the corporation income tax. Nevertheless, growth in Kentucky was in line with growth seen in most states.

Coal severance tax collections continued a recent trend of sharp increases by posting a gain of 25.0 percent for FY05. Receipts totaled \$184.4 million compared to \$147.5 million collected during the prior fiscal year. Coal severance taxes have risen primarily due to sudden increases in coal prices that have persisted for the last year and a half.

Cigarette taxes have formed a minor revenue source historically in Kentucky. However, with the passage of a 27-cent per pack increase in the tax rate (of which 26 cents remits to the General Fund), these will soon become a major revenue source. The new rate was

effective on June 1 of FY05, and helped to boost revenues for these taxes. Growth in FY05 was 97.1 percent with total collections of \$33.7 million. Of this amount, \$8.7 million is due to the imposition of a one-time floor stock tax.

Total property taxes experienced an increase of 5.3 percent during this fiscal year. Receipts totaled \$472.6 million compared to \$448.8 million collected in FY04. Timing differences within some property tax accounts relative to distributions of collections that are made on behalf of local governments continue to have a minor impact on property tax receipts.

Lottery receipts fell by 7.2 percent from the previous year. Receipts of \$161.3 million compare to \$173.8 million remitted to the state last fiscal year. Unanticipated prize expenses in some on-line games reduced net revenues from this source.

The “other” category finished the year with growth of 5.8 percent. Receipts of \$549.2 million compare to \$519.1 million collected in FY04. Growth in the bank franchise tax, natural gas severance tax, investment income and abandoned property fueled the increase.

General Fund collections for FY05 exceeded the official revenue estimate (defined as the January 19, 2005 consensus estimate as modified by legislation from the 2005 General Assembly) by \$195.1 million as shown in Table 5. This was 2.6 percent more than anticipated in the official estimate. The largest excess occurred in the individual income tax, which was \$89.0 million above forecasted levels. In terms of percentages, the largest excess was in cigarette taxes, which was more than 105

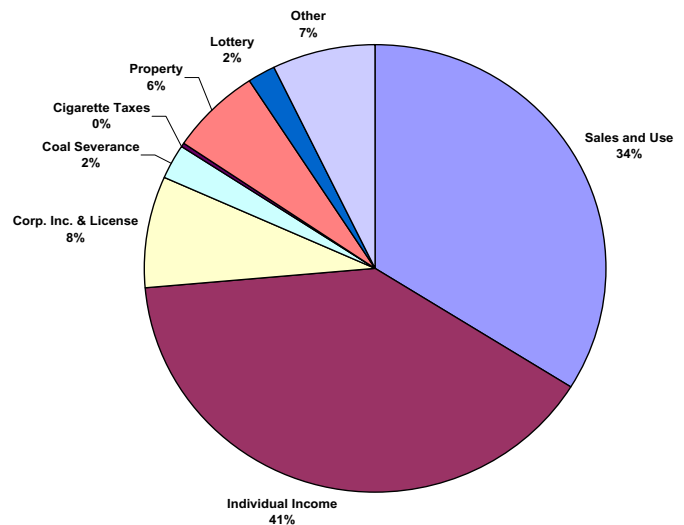
**Table 5**  
**FY05 General Fund Revenues**  
**Compared to Official Estimate**  
**(mil \$)**

|                   | <u>Actual</u>  | <u>Estimate</u> | <u>Dif</u><br><u>(\$)</u> | <u>Dif</u><br><u>(%)</u> |
|-------------------|----------------|-----------------|---------------------------|--------------------------|
| Sales & Use       | 2,595.0        | 2,577.4         | 17.6                      | 0.7                      |
| Individual Income | 3,036.2        | 2,947.2         | 89.0                      | 3.0                      |
| Corp. Inc. & Lic. | 612.6          | 572.0           | 40.6                      | 7.1                      |
| Coal Severance    | 184.4          | 172.4           | 12.0                      | 7.0                      |
| Cigarette Taxes   | 33.7           | 16.4            | 17.3                      | 105.5                    |
| Property          | 472.6          | 462.4           | 10.2                      | 2.2                      |
| Lottery           | 161.3          | 170.5           | -9.2                      | -5.4                     |
| Other             | <u>549.2</u>   | <u>531.6</u>    | <u>17.6</u>               | <u>3.3</u>               |
| <b>TOTAL</b>      | <b>7,645.0</b> | <b>7,449.9</b>  | <b>195.1</b>              | <b>2.6</b>               |

percent above forecasted levels. On the other hand, both the sales and use tax as well as property taxes came in near forecasted levels.

Figure C details the composition of FY05 General Fund receipts by tax type. Three-fourths of General Fund revenues were in the areas of the individual income tax and the sales tax. The next-largest source of revenue was the combination of the corporation income tax and the corporation

**Figure C**  
**Composition of FY05**  
**General Fund Revenues**



license tax. “Other taxes” combine for seven percent. The largest components in this category include insurance premium taxes, inheritance tax, beer wholesale sales tax, the natural gas severance tax, departmental fees, and fines and forfeitures. Coal severance taxes composed two percent by virtue of their recent rise. Property taxes made up six percent of the General Fund in the entire fiscal year. Lottery revenues were two percent of the General Fund. Cigarette taxes, which also have risen recently due to the increase in rate, comprise less than one percent (rounded to zero) but are destined to take a larger share of the General Fund in future quarters.

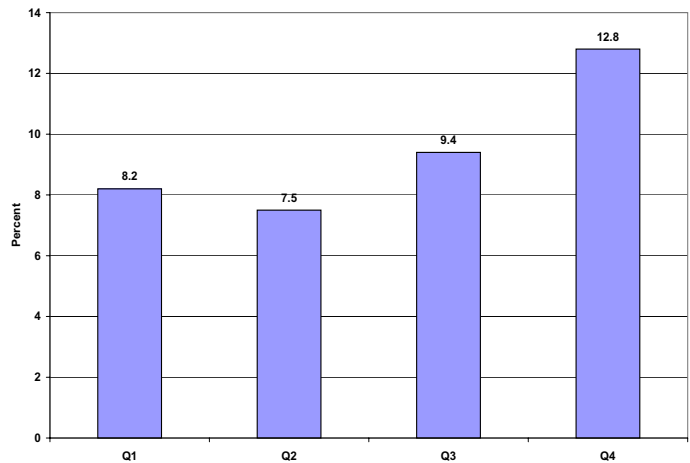
Table 6 and Figure D detail the growth rates in General Fund revenues by each fiscal quarter of FY05. Overall, growth was strong in each of the four quarters, intensifying somewhat in the latter half of the fiscal year. The major accounts with highest growth rates consistently throughout the year were corporation income and license taxes, and coal severance taxes. The two largest taxes in the General Fund, individual income and sales taxes, each also experienced good growth throughout the year. Cigarette taxes revealed strong growth for the full year even though it was negative for three quarters because the tax increase that became effective on June 1 overwhelmed the much smaller revenue totals in the first three quarters.

Kentucky’s General Fund receipts largely reflect the overall economy, and for that reason this report includes in a later section a discussion of economic conditions in FY05. In Figure G on page 16 the relative growth rates of both Kentucky total personal income and General Fund

**Table 6**  
**General Fund Growth Rates for the Four Quarters**  
**and Full Year FY05**  
**(percent)**

|                   | <b>1st<br/>Qtr</b> | <b>2nd<br/>Qtr</b> | <b>3rd<br/>Qtr</b> | <b>4th<br/>Qtr</b> | <b>FY05</b> |
|-------------------|--------------------|--------------------|--------------------|--------------------|-------------|
| Sales & Use       | 6.4                | 3.6                | 8.2                | 6.0                | 6.0         |
| Individual Income | 5.4                | 5.6                | 16.5               | 8.3                | 8.6         |
| Corp. Inc. & Lic. | 47.1               | 35.6               | 23.1               | 50.2               | 43.3        |
| Coal Severance    | 25.5               | 24.6               | 25.4               | 24.8               | 25.0        |
| Cigarette Taxes   | -1.3               | -6.3               | -11.8              | 391.9              | 97.1        |
| Property          | -6.0               | 12.7               | -3.4               | 4.8                | 5.3         |
| Lottery           | 5.1                | 4.4                | -34.0              | 1.2                | -7.2        |
| Other             | <u>5.8</u>         | <u>5.8</u>         | <u>7.8</u>         | <u>8.1</u>         | <u>5.8</u>  |
| <b>TOTAL</b>      | <b>8.2</b>         | <b>7.5</b>         | <b>9.4</b>         | <b>12.8</b>        | <b>9.6</b>  |

**Figure D**  
**Quarterly General Fund Growth**



revenues are plotted from FY00 forward. The relationship between the economy and revenues is apparent from examining the chart, although it can be observed that General Fund revenues exhibit a good deal more volatility than does total personal income. In the five preceding years to FY05, revenue growth lagged behind growth in total personal income, but in FY05 growth in revenue was nearly double the estimated growth in Kentucky personal income.

## Road Fund

Total Road Fund receipts rose by 0.9 percent during FY05. Total receipts of \$1,126.6 million compare to \$1,116.7 million collected in this fund during FY04. Road Fund collections are detailed in Table 7.

Motor fuels and motor fuels use taxes increased by 6.7 percent on receipts of \$490.8 million, compared to \$460.0 million collected during the previous fiscal year. Motor fuels taxes for the entire fiscal year were impacted by a statutory rate increase tied to the wholesale price of gasoline. Motor vehicle usage tax receipts of \$407.5 million represent a fall of 5.1 percent compared to the \$429.2 million collected in FY04. Usage tax receipts have fallen as a result of lower vehicle purchases compared to earlier years. Further affecting revenues in FY05 was an administrative decision to allow a credit against this tax for cars purchased in Indiana, which has begun collecting a tax on cars purchased within its borders by Kentucky residents.

Weight distance tax revenues rose by 4.4 percent with receipts of \$83.1 million compared to \$79.6 million collected in the previous fiscal year.

Motor vehicle license tax receipts were down by 1.6 percent with collections of

\$91.9 million, compared to \$93.4 million collected in FY04. Investment income fell by 26.7 percent as Road Fund balances declined further in FY05. Receipts totaled \$5.5 million, compared to \$7.5 million in FY04.

The “Other” category grew by 1.7 percent over the previous fiscal year. Total receipts in this category were \$47.8 million, which compares to \$54.4 million collected in FY04.

Road Fund collections for FY05 exceeded the official revenue estimate (the consensus estimate of January 19, 2005) by \$6.9 million as shown in Table 8. This was 0.6 percent more than anticipated in the official estimate. The largest excess occurred in the motor vehicle license tax, which was \$2.8 million above forecasted levels. In terms of percentages, the largest excess was in investment income, which was 12.2 percent higher than forecasted.

Figure E details the composition of FY05 Road Fund receipts by source type. Over four-fifths of the Road Fund comes from motor vehicle usage taxes and motor fuels taxes. Following these, the motor vehicle license tax was the next-largest source of revenue, followed by the weight distance tax. “Other” taxes combined to account for four percent, and investment income was one percent of the Road Fund.

**Table 7**  
**FY05 Road Fund Revenues Compared to Previous Years**

|                       | Million \$     |                |                | Growth Rate % |             |            |
|-----------------------|----------------|----------------|----------------|---------------|-------------|------------|
|                       | FY05           | FY04           | FY03           | FY05          | FY04        | FY03       |
| Motor Fuels & MF Use  | 490.8          | 460.0          | 453.6          | 6.7           | 1.3         | 2.1        |
| Motor Vehicle Usage   | 407.5          | 429.2          | 432.9          | -5.1          | -0.8        | 0.8        |
| Weight Distance       | 83.1           | 79.6           | 76.9           | 4.4           | 3.5         | 2.1        |
| Motor Vehicle License | 91.9           | 93.4           | 76.2           | -1.6          | 22.6        | -9.8       |
| Investment Income     | 5.5            | 7.5            | 29.1           | -26.7         | -74.2       | -9.6       |
| Other                 | 47.8           | 47.0           | 54.4           | 1.7           | -12.9       | 1.9        |
| <b>TOTAL</b>          | <b>1,126.6</b> | <b>1,116.7</b> | <b>1,123.1</b> | <b>0.9</b>    | <b>-0.6</b> | <b>0.4</b> |

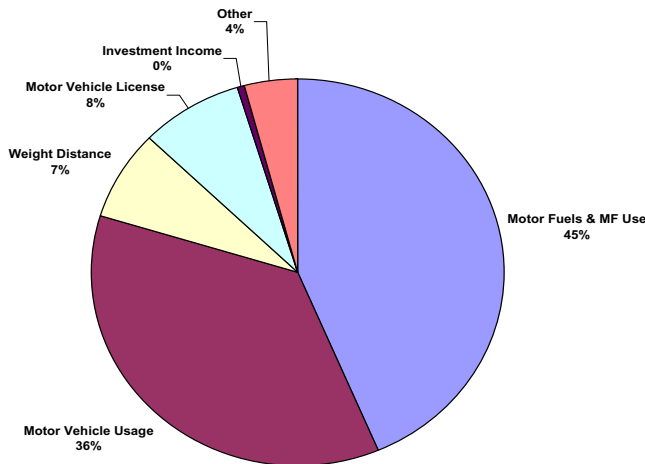


**Table 8**  
**FY05 Road Fund Revenues**  
**Compared to Official Estimate**  
**(mil \$)**

|                       | <u>Actual</u>  | <u>Est.</u>    | <u>Dif</u>  | <u>Dif</u> |
|-----------------------|----------------|----------------|-------------|------------|
|                       |                |                | <u>(\$)</u> | <u>(%)</u> |
| Motor Fuels & MF Use  | 490.8          | 490.8          | 0.0         | 0.0        |
| Motor Vehicle Usage   | 407.5          | 405.5          | 2.0         | 0.5        |
| Weight Distance       | 83.1           | 83.5           | -0.4        | -0.5       |
| Motor Vehicle License | 91.9           | 89.1           | 2.8         | 3.1        |
| Investment Income     | 5.5            | 4.9            | 0.6         | 12.2       |
| Other                 | <u>47.8</u>    | <u>45.9</u>    | <u>1.9</u>  | <u>4.1</u> |
| <b>TOTAL</b>          | <b>1,126.6</b> | <b>1,119.7</b> | <b>6.9</b>  | <b>0.6</b> |

Unlike the General Fund, growth in the Road Fund does not follow closely the growth in Kentucky personal income, as seen in Figure G. In the five fiscal years prior to FY05, Road Fund growth was the strongest in FY02, when it rose 5.2 percent in the face of weak personal income performance. In more recent years, the Road Fund has either risen by under one percent or fallen by a slight amount as the economy strengthened.

**Figure E**  
**Composition of FY05 Road Fund Revenue**

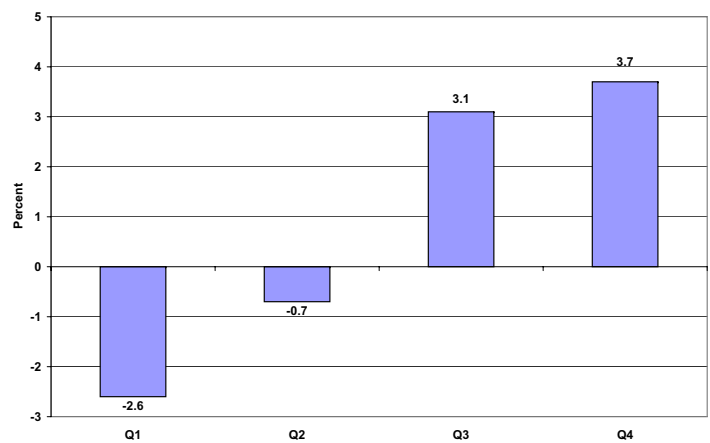


**Table 9**  
**Road Fund Growth Rates for the**  
**Four Quarters and Full Year FY05**  
**(Percent)**

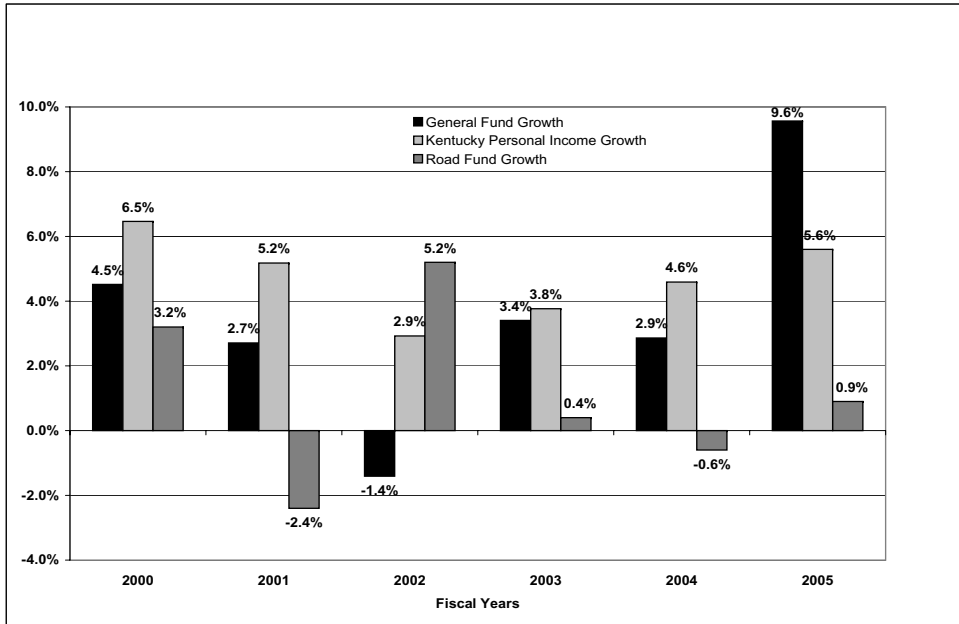
|                       | <u>1st</u>  | <u>2nd</u>  | <u>3rd</u>  | <u>4th</u> | <u>FY</u>   |
|-----------------------|-------------|-------------|-------------|------------|-------------|
|                       | <u>QTR</u>  | <u>QTR</u>  | <u>QTR</u>  | <u>QTR</u> | <u>2005</u> |
| Motor Fuels & MF Use  | 8.6         | 2.0         | 9.3         | 6.9        | 6.7         |
| Motor Vehicle Usage   | -7.6        | -5.8        | -3.4        | -3.2       | -5.1        |
| Weight Distance       | 5.6         | 6.1         | 4.0         | 2.0        | 4.4         |
| Motor Vehicle License | -21.0       | -5.9        | 8.5         | 5.5        | -1.6        |
| Investment Income     | -83.4       | 33.2        | -55.3       | 2,681.7    | -26.7       |
| Other                 | <u>-6.9</u> | <u>11.5</u> | <u>-5.0</u> | <u>9.0</u> | <u>1.7</u>  |
| <b>TOTAL</b>          | <b>-2.6</b> | <b>-0.7</b> | <b>3.1</b>  | <b>3.7</b> | <b>0.9</b>  |

Table 9 and Figure F detail the growth rates in Road Fund revenue by each fiscal quarter in FY05. Overall, growth was negative in the first half of the fiscal year, and positive in the second half. The major accounts with the strongest growth included motor fuels taxes, which were impacted by a rate increase of an additional penny per gallon, in effect for the entire fiscal year. The weight distance tax was also up in all four quarters, whereas all other major sources either had varying signs or were consistently negative.

**Figure F**  
**Quarterly Road Fund Growth**



**Figure G**  
**General Fund, Road Fund and Personal Income**  
**Growth Rates, FY00-FY05**





## **II.**

### ***The Economy***



# The Economy

During Fiscal Year 2005 all the key economic indicators—including employment—showed a decided uptick. Since the recession ended in November, 2001, output, as measured by gross domestic product (GDP), had been surging from increased productivity, but employment and earnings had remained stagnant. In FY05 personal income increased strongly as did employment. The gains were especially strong in the fourth quarter (April to June 2005) and were enough to counter the negative effects of high energy costs.

## NATIONAL ECONOMY

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by a robust 3.8 percent in FY05 as well as in the fourth quarter. This is a continuation of the strong growth that was established a year ago.

Strong consumer demand was primarily responsible for the rapid growth in FY05.

Consumption expenditures account for about two-thirds of real GDP. Real consumption was up 3.7 percent for the year and 4.0 percent during the fourth quarter. This was chiefly due to the demand for durable goods which was up 6.3 percent for the year and 8.5 percent for the quarter. Low mortgage rates and a rise in real estate values resulted in refinancing with cash-outs that left consumers with more spending money. The lower rates also spurred a housing boom and the accompanying purchases to furnish the new houses. This phenomenon showed up in the 9.4 percent increase in furniture purchases for FY05. Increases in gasoline and food prices boosted nondurable-goods consumption by 4.2 percent for the year as well as the final quarter. Services constitute a little over one-half of all consumption and about 35 percent of total GDP. The consumption of services increased by 3.0 percent in FY05 compared to 2.3 percent a year ago.

Another positive feature of FY05 was the sustained strength of business investments. Overall investments were up 9.9 percent for

**Table 10**  
**US Summary Economic Conditions**

|   | Fourth Quarter* |          |       | Fiscal Year Average |          |       |
|---|-----------------|----------|-------|---------------------|----------|-------|
|   | FY04            | FY05     | % Chg | FY04                | FY05     | % Chg |
| Real GDP (billion 2000 \$)                  | 10,784.7        | 11,180.5 | 3.8   | 10,633.9            | 11,040.5 | 3.8   |
| Personal Income (billion \$)                | 9,592.7         | 10,245.9 | 6.8   | 9,394.3             | 10,018.2 | 6.6   |
| Consumer Price Index (1992=100)             | 188.6           | 194.3    | 3.0   | 186.1               | 191.7    | 3.0   |
| Industrial Production (1992=100)            | 115.1           | 118.8    | 3.2   | 113.1               | 117.5    | 3.9   |
| Civilian Labor Force (millions)             | 147.1           | 149.1    | 1.4   | 146.8               | 148.2    | 1.0   |
| Total Nonagricultural Employment (millions) | 131.3           | 133.4    | 1.6   | 130.5               | 132.6    | 1.6   |
| Manufacturing Employment (millions)         | 14.3            | 14.3     | -0.2  | 14.3                | 14.3     | 0.0   |
| Unemployment Rate (percent)                 | 5.6             | 5.1      | -     | 5.8                 | 5.3      | -     |

\* Seasonally adjusted data.

Sources: Global Insight, and U.S. Department of Commerce, BEA.

the fiscal year and 5.5 percent for the quarter. The strongest performance was in computer equipment and software which was up 13.3 percent for the year and 12.0 percent in the fourth quarter. This is a critical sector because much of the recent prosperity in the U.S. economy is from gains in productivity driven by investment in computer equipment.

Personal income, which is a measure of spending power, posted a substantial gain of 6.6 percent FY05 compared to 4.6 percent in the previous year. During the fourth quarter income grew at a slightly higher rate of 6.8 percent compared to the same period a year ago. This growth is significantly higher than the 5.3 percent posted in the fourth quarter of FY04.

The employment news has shown substantial improvement. Total nonfarm employment is estimated to have increased by 1.6 percent during FY05 as well as in

the fourth quarter. The major gains were in mining (up 5.1 percent for the year and 5.7 percent for the quarter); construction (up 3.8 percent for the year and 4.1 percent for the quarter) and business (up 3.2 percent for the year and 2.8 percent for the quarter). Manufacturing employment was flat for the year, but declined by 0.2 percent during the fourth quarter. The unemployment rate averaged 5.3 percent for FY05 and 5.1 percent for the quarter.

## STATE ECONOMY

The strength of the national economy is typically gauged by increase in output as measured by real GDP. The performance of state economies is measured by personal income and employment. In terms of these two statistics the Kentucky economy edged into expansionary territory in FY04 when personal income grew by 4.6 percent and nonfarm employment was up by 0.2 percent. (Employment had actually been

**Table 11**  
**Kentucky Economic Conditions**

|                                     | Fourth Quarter* |         |       | Fiscal Year Average |         |       |
|-------------------------------------|-----------------|---------|-------|---------------------|---------|-------|
|                                     | FY04            | FY05    | % Chg | FY04                | FY05    | % Chg |
| Total Personal Income (\$ billions) | 114.1           | 120.9   | 6.0   | 112.1               | 118.3   | 5.6   |
| Wage & Salary Income (\$ billions)  | 60.9            | 64.6    | 6.2   | 59.9                | 63.1    | 5.4   |
| Nonagricultural Employment ('000)   | 1,795.5         | 1,817.9 | 1.2   | 1,788.9             | 1,804.7 | 0.9   |
| Goods Producing ('000)              | 367.3           | 374.2   | 1.9   | 367.0               | 369.6   | 0.7   |
| Construction                        | 83.4            | 87.5    | 5.0   | 83.4                | 85.1    | 2.0   |
| Mining                              | 19.6            | 20.3    | 3.5   | 19.2                | 19.9    | 3.6   |
| Manufacturing                       | 264.3           | 266.3   | 0.8   | 264.4               | 264.6   | 0.1   |
| Service Providing ('000)            | 1,119.0         | 1,134.9 | 1.4   | 1,111.5             | 1,124.1 | 1.1   |
| Trade, Transportation & Utilities   | 372.6           | 374.2   | 0.4   | 371.4               | 373.0   | 0.4   |
| Information                         | 28.9            | 28.1    | -2.5  | 29.0                | 28.4    | -2.1  |
| Finance                             | 87.5            | 85.2    | -2.7  | 87.4                | 86.0    | -1.6  |
| Business Services                   | 160.8           | 167.8   | 4.3   | 158.3               | 162.6   | 2.7   |
| Educational Services                | 230.4           | 233.2   | 1.2   | 228.9               | 232.2   | 1.4   |
| Leisure and Hospitality Services    | 160.4           | 166.3   | 3.7   | 158.6               | 162.9   | 2.7   |
| Other Services                      | 78.5            | 80.1    | 2.0   | 77.9                | 79.0    | 1.4   |
| Government                          | 309.2           | 308.8   | -0.1  | 310.4               | 311.0   | 0.2   |

\* Seasonally adjusted data.

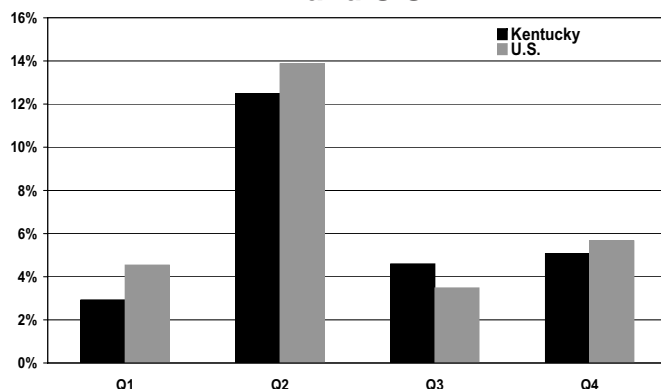
Source: Governor's Office for Economic Analysis

falling before that.) The slow recovery was primarily from increased productivity, with the resulting need for a smaller work force, and excess manufacturing capacity abroad. Kentucky's economic conditions are detailed in Table 11.

In FY05 Kentucky's personal income is estimated to have increased by 5.6 percent to \$118.3 billion. The corresponding figures for the fourth quarter were 6.0 percent and \$120.9 billion. Wages and salaries comprise about 53 percent of total income. These were up by 5.4 percent during the year and a robust 6.2 percent in the fourth quarter. Figure H shows Kentucky's personal income growth quarterly compared to the quarterly growth in US personal income. In general, Kentucky's personal income growth has been similar to that of the US. For both regions, the second quarter of FY05 (Oct-Dec 2004) experienced the highest growth in personal income.

Since year 2000, Kentucky personal income has risen to 122 percent of its level that year, as shown in Figure I. Again, this closely matches the five-year growth in US personal income, which was just under 122 percent of its value in 2000.

**Figure H**  
**Personal Income: FY05 Quarterly Change**  
**in KY and U.S.**



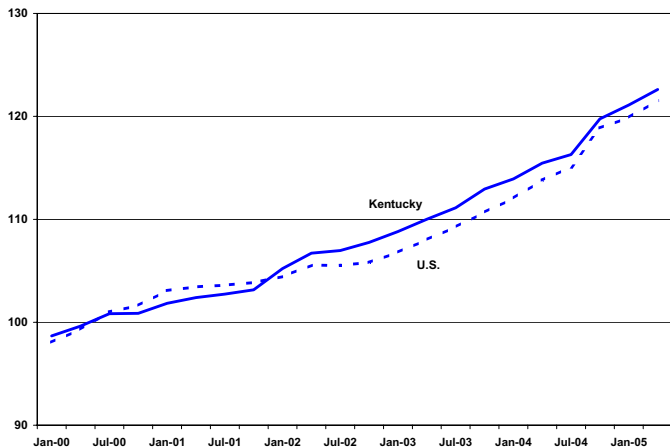
Employment data is commonly used to gauge the strength of the state's economy, primarily because of its timely availability and its impact on consumer spending and confidence. Nonfarm employment in Kentucky increased by a 0.9 percent in FY05 resulting in the addition of 15,800 jobs. In the fourth quarter nonfarm employment grew by 1.2 percent. (To put it in historical perspective, during the 1990s the Kentucky economy added an average of 37,800 jobs annually.)

The deceleration in employment growth in Kentucky is evident from Figure J. Since the recession of 2001, Kentucky has yet to reach its peak employment level set in FY01, despite the acceleration in growth seen in FY05. For the US, employment only reached the pre-recession peak in the last fiscal year.

The service-providing sectors posted the largest gains during the year with an increase of 1.1 percent compared to 0.7 percent for the goods-producing sector. However, in the fourth quarter employment grew by 1.9 percent in the goods-producing sector versus 1.4 percent in services. Government jobs account for 17 percent of total nonfarm employment and were up 0.2 percent for the year, but declined by 0.1 percent in the final quarter.

Kentucky's employment composition has changed over the last decade and has converged closer to the national average. However, employment is still dominated by manufacturing and construction. The goods-producing sector accounts for 21 percent of all jobs in Kentucky compared to the national average of 16 percent. In the last few years this has been to Kentucky's disadvantage as manufacturing facilities

**Figure I**  
**Personal Income: KY vs. U.S.**  
**(Index FY00 = 100)**



have moved to low-cost centers abroad, and the ones that remain have seen a surge in productivity.

In FY05 manufacturing employment was up just 0.1 percent, but showed stronger gains near the end of the year with an increase of 0.8 percent in the fourth quarter. The manufacture of transportation equipment accounts for over one-fifth of all manufacturing jobs and was up 0.7 percent. The largest percentage gain in manufacturing employment was from computer and electronic products with an increase of 5.1 percent. However, this sector accounts for 8,300 jobs or just three percent of total manufacturing employment. Wood product manufacturing and paper manufacturing posted strong growth of 3.8 percent each. These two industries have combined employment of 24,500. Employment in fabricated metal products also grew strongly by 1.9 percent. This industry provides eight percent of manufacturing jobs. The largest decline in terms of both levels and percentage was in

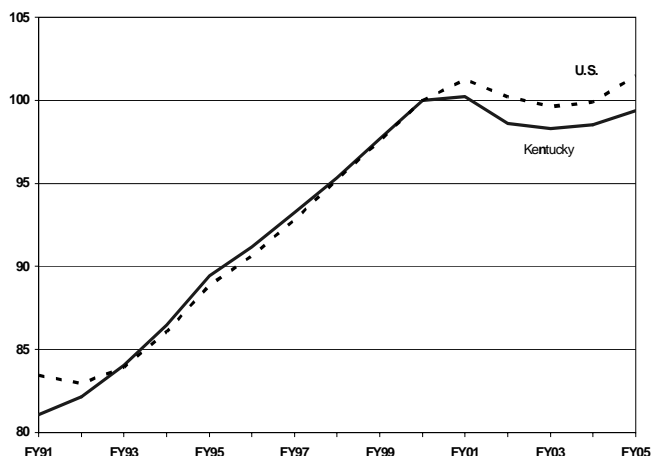
the apparel industry. In FY05 apparel employment contracted by 13.5 percent with a loss of 1,200 jobs.

The construction industry expanded by 2.0 percent in FY05, and 5.0 percent during the fourth quarter. However, most of the growth came not from residential construction, but from heavy and civil engineering projects.

Trade, transportation and utilities represent the largest supersector in both Kentucky and the nation. Employment in this sector was up just 0.4 percent for the year as well as the fourth quarter. About three-fourths of the job in this sector are in wholesale and retail trade. Employment in wholesale trade was up 0.5 percent for FY05, while that in the retail industry declined by 0.3 percent. The largest decline in Kentucky was in food and beverage stores (down 6.2 percent) as specialty stores continued to decline in favor of “big-box” stores. The transportation and warehousing sector increased employment by 3.9 percent with the largest increases coming from truck transportation (up 3.1 percent) and couriers, including air couriers (up 5.9 percent).

Both the financial services and information sectors lost jobs in FY05 as well as in the fourth quarter. The job losses in financial services are due to national consolidation and the increased tendency to process loans and mortgages at a central location. The drop in the information sector is not in the telecommunications portion, where employment was flat, but in newspaper publishing which posted a decline of 3.1 percent.

**Figure J**  
**Nonfarm Employment: KY vs. U.S.**  
**(Index FY00 = 100)**



Business services had an employment increase of 4.3 percent in the fourth quarter and 2.7 percent for the year. The fastest-growing component was administrative and support with 60 percent of the jobs and a 6.7 percent increase in employment. Employment services account for 26 percent of total business services and grew by 5.1

percent. One third of the jobs are in professional, scientific, and technical services. These grew by just 0.2 percent in FY05.

Leisure and hospitality services comprise ten percent of Kentucky's employment. During FY05 employment in this sector was up 2.7 percent, and grew by a substantial 3.7 percent in the fourth quarter. Employment growth was strongest in the arts and entertainment portion of this sector (up 3.5 percent). However, those account for a little over ten percent of this sector. Close to ninety percent of the jobs are in the accommodation and food service industries which grew by 2.5 percent.

Employment in government comprises 17 percent of all employment in Kentucky and is close to the national average of 16 percent. Government employment grew by just 0.2 percent during the year and declined by 0.1 percent in the fourth quarter. The decline was due to job losses in state government.





### III.

## *Interim Outlook*



# Interim Outlook

## General Fund

Projected General Fund revenues for the next three quarters are shown in Table 12. General Fund revenues are anticipated to total \$6,011.9 million in the first three quarters of FY06, a growth rate of 9.2 percent compared to the same period of FY05. This expected growth rate is slightly lower than the actual growth rate for FY05. Net revenues will be boosted by changes enacted in HB 272 (*JOBS for Kentucky*) although some taxes will see losses in revenue and others will gain.

**Table 12**  
**General Fund Interim Forecast**  
(mil \$)

|                      | FY05           |            | FY06              |            |
|----------------------|----------------|------------|-------------------|------------|
|                      | Full Year      |            | Quarters 1, 2 & 3 |            |
|                      | Actual         | % Chg      | Est.              | % Chg      |
| Sales & Use          | 2,595.0        | 6.0        | 2,031.8           | 5.0        |
| Individual Income    | 3,036.2        | 8.6        | 2,022.9           | -5.5       |
| Corp. Inc. & License | 612.7          | 43.4       | 664.3             | 106.2      |
| Coal Severance       | 184.4          | 25.0       | 151.3             | 15.7       |
| Cigarette            | 33.7           | 96.0       | 137.1             | 1,049.8    |
| Property             | 472.6          | 5.3        | 432.3             | 2.5        |
| Lottery              | 161.3          | -7.2       | 118.0             | -1.5       |
| Other                | 549.2          | 5.8        | 454.2             | 7.8        |
| <b>General Fund</b>  | <b>7,645.0</b> | <b>9.6</b> | <b>6,011.9</b>    | <b>9.2</b> |

Sales and use tax receipts are estimated to grow by 5.0 percent in the first three quarters of FY06, reflecting strong growth in the economy. Sales tax receipts were very strong in FY05, and recent economic trends indicate that the growth can be sustained at a similar pace.

The interim forecast for the individual income tax calls for receipts to fall by 5.5 percent in the first three quarters of FY06. This decline is solely the result of enacted changes in HB 272. The changes include a reduced tax rate for some income ranges,

the expansion of the low-income credit to abolish income taxes on taxpayers below the poverty level, and a redirection of taxes on pass-through entity income from the individual income tax to the corporation income tax.

The outlook for corporation income and license taxes is an increase of 106.2 percent for the first three quarters of FY06. Corporation income taxes rose rapidly during FY05 both in Kentucky and nationally, and this increase is expected to continue but at a slower rate. An additional reason for the increase is the counterpart to the individual income tax reduction: reclassification of pass-through entity income tax to the corporation income tax. This will overwhelm the impact of the reduction in the top marginal rate and will cause the corporation income tax to rise.

Coal severance tax revenue is expected to continue rising, but also at a slightly reduced rate compared to its increase in FY05. For the first three quarters of FY06, coal severance tax revenue is forecasted to expand by 15.7 percent. Higher energy prices are chiefly responsible for the expected increase.

Cigarette taxes were increased to 30 cents per pack from 3 cents by the 2005 General Assembly (with one cent of the total 27 cent increase dedicated to a restricted fund), and the estimate for the first three quarters of FY06 reflects this increase. For this time period, cigarette tax revenue is estimated to rise by 1,049.8 percent.

Property taxes are expected to grow by 2.5 percent in the first three quarters of FY06.

This tax will be affected by changes enacted in HB 272, but on a net basis will not experience a major revenue gain or loss during the upcoming three quarters.

Lottery revenues for the first three quarters of FY06 are expected to be \$118 million, representing a decrease of 1.5 percent. Lottery revenues in early FY05 were boosted by unexpected dividends arising from large sales of Powerball tickets; such an event is not expected to occur again in the first three quarters of FY06.

Revenues in the “other” category should rise by 7.8 percent during the first three quarters of FY06. The main reason for the increase are the increases in various tax categories that become effective during the forecast period. Wholesale sales taxes on liquor, beer, and wine were increased by HB 272 effective June 1, 2005, and new General Fund taxes on telecommunications services will become effective January 1, 2006.

## Road Fund

The Road Fund is expected to grow by 4.5 percent during the first three quarters of FY06, as shown in Table 13. The Road Fund expanded by just 0.9 percent in FY05 as most major accounts experienced declines.

Combined motor fuels tax receipts are expected to increase 6.7 percent, in large part due to an increase in the tax rate caused by rising prices and an automatic statutory increase. This is the second consecutive year in which the rate increase has been triggered by high prices of gasoline.

Motor vehicle usage taxes are expected to grow by 1.5 percent during the first three quarters of FY06. In FY05, receipts from this category declined by 5.1 percent. The outlook for the upcoming nine months is for an improvement in vehicle sales that will lead to an increase in tax receipts.

To estimate growth of the other components of the Road Fund, GOEA consulted with officials in the Transportation Cabinet and the Department of Revenue to assess recent growth patterns as well as administrative factors in developing an updated estimate. Motor vehicle operator’s license (driver’s license) fees are expected to rise by 112.8 percent due to an increase in the fee passed by the 2005 General Assembly. Weight distance taxes are expected to rise by 1.8 percent, motor vehicle license taxes are forecasted to fall by 2.3 percent, and investment income should grow by 8.7 percent. The “other” category should rise by 4.5 percent.

**Table 13**  
**Road Fund Interim Forecast**  
**(mil \$)**

|                        | <b>FY05</b>      |              | <b>FY06</b>                  |              |
|------------------------|------------------|--------------|------------------------------|--------------|
|                        | <b>Full Year</b> |              | <b>Quarters 1, 2 &amp; 3</b> |              |
|                        | <b>Actual</b>    | <b>% Chg</b> | <b>Est.</b>                  | <b>% Chg</b> |
| Motor Fuels            | 490.8            | 6.7          | 388.8                        | 6.7          |
| Motor Vehicle Usage    | 407.5            | -5.1         | 306.7                        | 1.5          |
| Motor Vehicle License  | 91.9             | -1.6         | 59.4                         | -2.3         |
| Motor Vehicle Operator | 5.9              | 5.4          | 11.3                         | 162.8        |
| Weight Distance        | 83.1             | 4.4          | 63.5                         | 1.8          |
| Investment             | 5.5              | -26.7        | 2.5                          | 8.7          |
| Other                  | <u>41.8</u>      | <u>0.9</u>   | <u>32.8</u>                  | <u>4.5</u>   |
| <b>Road Fund</b>       | <b>1,126.6</b>   | <b>0.9</b>   | <b>865.0</b>                 | <b>4.5</b>   |

## National Economy

The economy is expected to lose some steam by the middle of FY06. The slight down shift is a result of high energy prices and the steadily increasing cost of borrowing as the Fed continues to hike up short term rates. Real GDP is expected to show a gain of 3.3 percent from a year ago during the July-to-March period of FY06. This is substantially lower than the 4.4 percent growth experienced in the same period in FY05.

Over the last four years consumption has played a greater role in real GDP as the other components—investment, net exports, and government spending—have been hit by overcapacity in both domestic factories and those abroad, the strong dollar, and state government budget woes which have counterbalanced federal government spending. During the first three quarters of FY06 consumption is expected to increase by 3.2 percent compared to 3.7 percent a year ago. Consumption of durable goods is expected

to soften substantially from 5.5 percent a year ago to 3.1 percent. The dampening is related to increased interest rates and a slight contraction in the demand for motor vehicles and parts.

During the last two years the Fed has raised the benchmark federal funds rate from 2.0 percent in June 2003 to the current 4.0 percent. The high cost of borrowing is expected to dampen investment in the forecast period from 11.5 percent a year ago to 5.3 percent. Most of the drop is expected to be in structures and machinery, while information processing will continue to draw investment dollars albeit at a slightly lower rate: from 13.8 percent during the July-to-March period of FY05 to 8.6 percent in FY06.

U.S. personal income is forecasted to increase by a robust 5.9 percent as nonfarm employment growth increases by 1.4 percent during the first three quarters of FY06. Industrial production is expected to slow slightly and manufacturing employment is forecasted to decline by 0.1 percent.

**Table 14**  
**National Economic Outlook**

|                                     | FY06 Quarters 1, 2, & 3* |        |                |
|-------------------------------------|--------------------------|--------|----------------|
|                                     | FY05                     | FY06   | Percent Change |
| Real GDP (billion 2000 \$)          | 10,994                   | 11,362 | 3.3            |
| Personal Income (billion \$)        | 9,942                    | 10,531 | 5.9            |
| Consumer Price Index (1992-94=100)  | 190.9                    | 196.4  | 2.9            |
| Industrial Production (1992=100)    | 117.1                    | 120.9  | 3.2            |
| Civilian Labor Force (millions)     | 148.0                    | 150.1  | 1.4            |
| Total Nonfarm Employment (millions) | 131.7                    | 133.6  | 1.4            |
| Manufacturing Employment (millions) | 14.3                     | 14.3   | -0.1           |
| Unemployment Rate (percent)         | 5.4                      | 5.1    | -              |

\* Seasonally adjusted data.

Sources: Global Insight, and U.S. Department of Commerce, BEA.  
Data for FY06 are July 2005 estimates.

## State Economy

In the 1990s Kentucky led the national economic recovery and outperformed the U.S. average in both personal income and employment growth. This time, however, Kentucky's recovery and growth in income and employment are expected to be slightly below the national average. The difference stems from the rapid growth in Asian markets and the availability of low-cost manufacturing centers which provide stiff competition to states like Kentucky with a large manufacturing base. The Kentucky economy is converging towards the national average, but manufacturing still accounts for 15 percent of the jobs and 21 percent of the wages. (The equivalent U.S. figures are 11 percent of the jobs and 13 percent of wages.)

In the first three quarters of FY06 personal income is expected to grow by 5.2 percent and average \$123.6 billion. Wage and salary income constitutes about 53 percent of personal income and is expected to increase by 5.1 percent.

Employment growth in Kentucky is forecasted to be 1.7 percent in the first three quarters, helped mainly by strong growth in mining (up 7.3 percent) and construction (up 5.3 percent). The rise in mining jobs is linked to the world energy market and the increase in short-term job gains in coal mining. The 1.1 percent increase in manufacturing employment is based on the strong performance of machinery manufacturing and fabricated metal products.

The service sector is forecasted to continue expanding especially in the areas of leisure and hospitality services and information services. The expansion of business services is a normal consequence of the growth in the economy. Business services include legal and accounting services as well as a host of others like temporary help services and support services. The 1.8 percent gain in government jobs is primarily in the area of local government which account for the majority of government jobs in Kentucky.

**Table 15**  
**Kentucky Economic Outlook**  
Quarters 1, 2, & 3\*

|                                     | FY05      | FY06      | Percent*<br>Change |
|-------------------------------------|-----------|-----------|--------------------|
| Total Personal Income (\$ millions) | 117,444.0 | 123,584.3 | 5.2                |
| Wage & Salary Income (\$ millions)  | 62,593.7  | 65,770.0  | 5.1                |
| Nonagricultural Employment ('000)   | 1,801.7   | 1,833.2   | 1.7                |
| Goods Producing ('000)              | 368.0     | 376.8     | 2.4                |
| Contract Construction               | 84.3      | 88.7      | 5.3                |
| Mining                              | 19.7      | 21.2      | 7.3                |
| Manufacturing                       | 264.0     | 266.9     | 1.1                |
| Service Providing ('000)            | 1,123.6   | 1,140.6   | 1.5                |
| Trade, Transportation & Utilities   | 372.5     | 377.8     | 1.4                |
| Information                         | 28.4      | 29.1      | 2.5                |
| Finance                             | 86.3      | 87.7      | 1.6                |
| Business Services                   | 164.2     | 166.5     | 1.4                |
| Educational Services                | 231.9     | 235.3     | 1.5                |
| Leisure and Hospitality Services    | 161.7     | 165.8     | 2.6                |
| Other Services                      | 78.6      | 78.4      | -0.3               |
| Government                          | 310.1     | 315.8     | 1.8                |

\* Seasonally adjusted data.

Source: GOEA's Macromodel of Kentucky, July 2004

**APPENDIX A**  
***Fourth Quarter Report***





**KENTUCKY STATE GOVERNMENT  
GENERAL FUND REVENUE**

|                                 | Fourth Quarter<br>2004 - 2005 | Fourth Quarter<br>2003 - 2004 | Percent<br>Change | Year-To-Date<br>2004 - 2005 | Year-To-Date<br>2003 - 2004 | Percent<br>Change |
|---------------------------------|-------------------------------|-------------------------------|-------------------|-----------------------------|-----------------------------|-------------------|
| <b>TOTAL GENERAL FUND</b>       | <b>\$2,141,109,204</b>        | <b>\$1,897,506,342</b>        | <b>12.8%</b>      | <b>\$7,645,046,634</b>      | <b>\$6,977,623,200</b>      | <b>9.6%</b>       |
| <b>Tax Receipts</b>             | <b>\$2,072,606,552</b>        | <b>\$1,834,272,700</b>        | <b>13.0%</b>      | <b>\$7,350,335,469</b>      | <b>\$6,686,290,589</b>      | <b>9.9%</b>       |
| <b>Sales and Gross Receipts</b> | <b>\$744,309,467</b>          | <b>\$685,848,301</b>          | <b>8.5%</b>       | <b>\$2,838,701,120</b>      | <b>\$2,668,210,228</b>      | <b>6.4%</b>       |
| Beer Consumption                | 1,663,428                     | 1,726,632                     | -3.7              | 6,387,318                   | 6,320,886                   | 1.1               |
| Beer Wholesale                  | 9,844,310                     | 9,830,505                     | 0.1               | 37,815,717                  | 37,439,919                  | 1.0               |
| Cigarette                       | 13,093,357                    | 4,417,297                     | 196.4             | 24,966,880                  | 17,136,198                  | 45.7              |
| Cigarette Floor Stock           | 8,633,665                     | 0                             | ---               | 8,701,966                   | 0                           | ---               |
| Distilled Spirits Case Sales    | 23,877                        | 21,738                        | 9.8               | 92,178                      | 87,662                      | 5.2               |
| Distilled Spirits Consumption   | 2,414,861                     | 2,236,702                     | 8.0               | 9,190,089                   | 8,985,826                   | 2.3               |
| Distilled Spirits Wholesale     | 4,803,987                     | 4,275,765                     | 12.4              | 18,150,313                  | 16,957,192                  | 7.0               |
| Insurance Premium               | 38,527,144                    | 36,056,159                    | 6.9               | 123,410,091                 | 120,523,955                 | 2.4               |
| Pari-Mutuel                     | 2,726,576                     | 2,107,301                     | 29.4              | 4,710,111                   | 3,629,292                   | 29.8              |
| Race Track Admission            | 32,267                        | 39,801                        | -18.9             | 195,068                     | 232,350                     | -16.0             |
| Sales and Use                   | 659,955,830                   | 622,817,358                   | 6.0               | 2,594,966,373               | 2,447,584,698               | 6.0               |
| Wine Consumption                | 514,361                       | 499,094                       | 3.1               | 2,279,162                   | 2,005,265                   | 13.7              |
| Wine Wholesale                  | 2,007,504                     | 1,819,951                     | 10.3              | 7,835,853                   | 7,306,985                   | 7.2               |
| <b>License and Privilege</b>    | <b>\$134,971,330</b>          | <b>\$127,379,777</b>          | <b>6.0%</b>       | <b>\$427,823,269</b>        | <b>\$368,122,494</b>        | <b>16.2%</b>      |
| Alc. Bev. License Suspension    | 81,000                        | 3,300                         | 2,354.5           | 237,101                     | 223,700                     | 6.0               |
| Coal Severance                  | 53,715,428                    | 43,056,458                    | 24.8              | 184,436,935                 | 147,498,230                 | 25.0              |
| Corporation License             | 66,712,927                    | 73,362,106                    | -9.1              | 134,149,794                 | 124,096,012                 | 8.1               |
| Corporation Organization        | 543,377                       | 33,901                        | 1,502.8           | 613,048                     | 143,804                     | 326.3             |
| Occupational Licenses           | 84,431                        | 86,529                        | -2.4              | 188,761                     | 223,002                     | -15.4             |
| Oil Production                  | 1,356,576                     | 1,044,431                     | 29.9              | 4,710,832                   | 3,387,884                   | 39.0              |
| Race Track License              | 57,542                        | 47,650                        | 20.8              | 324,642                     | 335,625                     | -3.3              |
| Bank Franchise Tax              | 841,015                       | 633,058                       | 32.8              | 63,837,587                  | 55,467,195                  | 15.1              |
| Driver License Fees             | 127,832                       | 142,046                       | -10.0             | 522,904                     | 523,979                     | -0.2              |
| Minerals Severance              | 3,318,156                     | 3,154,390                     | 5.2               | 13,494,541                  | 13,711,874                  | -1.6              |
| Natural Gas Severance           | 8,133,047                     | 5,815,908                     | 39.8              | 25,307,125                  | 22,511,188                  | 12.4              |
| <b>Income</b>                   | <b>\$1,119,182,729</b>        | <b>\$946,442,979</b>          | <b>18.3%</b>      | <b>\$3,514,735,211</b>      | <b>\$3,099,593,870</b>      | <b>13.4%</b>      |
| Corporation                     | 223,839,391                   | 120,046,744                   | 86.5              | 478,504,505                 | 303,262,821                 | 57.8              |
| Individual                      | 895,343,338                   | 826,396,235                   | 8.3               | 3,036,230,706               | 2,796,331,049               | 8.6               |
| <b>Property</b>                 | <b>\$50,956,542</b>           | <b>\$48,621,877</b>           | <b>4.8%</b>       | <b>\$472,596,276</b>        | <b>\$448,765,511</b>        | <b>5.3%</b>       |
| Bank Deposits                   | 5,307                         | 3,618                         | 46.7              | 474,098                     | 467,711                     | 1.4               |
| Building & Loan Association     | 3,121,527                     | 2,451,819                     | 27.3              | 3,192,911                   | 2,513,083                   | 27.1              |
| Distilled Spirits               | 353                           | 0                             | ---               | 388,612                     | 375,637                     | 3.5               |
| General - Intangible            | 433,251                       | 371,890                       | 16.5              | 26,912,813                  | 27,547,183                  | -2.3              |
| General - Real                  | 7,452,471                     | 6,404,688                     | 16.4              | 202,182,555                 | 192,534,530                 | 5.0               |
| General - Tangible              | 31,672,413                    | 30,824,884                    | 2.7               | 159,883,091                 | 149,155,206                 | 7.2               |
| Omitted & Delinquent            | 1,108,075                     | (865,468)                     | ---               | 20,646,846                  | 15,829,225                  | 30.4              |
| Public Service                  | 7,060,382                     | 9,337,931                     | -24.4             | 58,787,595                  | 60,178,393                  | -2.3              |
| Other                           | 102,762                       | 92,516                        | 11.1              | 127,756                     | 164,542                     | -22.4             |
| <b>Inheritance</b>              | <b>\$14,851,019</b>           | <b>\$17,126,602</b>           | <b>-13.3%</b>     | <b>\$63,174,866</b>         | <b>\$66,083,705</b>         | <b>-4.4%</b>      |
| <b>Miscellaneous</b>            | <b>\$8,335,466</b>            | <b>\$8,853,163</b>            | <b>-5.8%</b>      | <b>\$33,304,727</b>         | <b>\$35,514,782</b>         | <b>-6.2%</b>      |
| Legal Process                   | 6,141,696                     | 6,819,522                     | -9.9              | 24,696,032                  | 27,322,798                  | -9.6              |
| T. V. A. In Lieu Payments       | 2,181,146                     | 2,026,831                     | 7.6               | 8,559,023                   | 8,146,924                   | 5.1               |
| Other                           | 12,624                        | 6,811                         | 85.4              | 49,672                      | 45,061                      | 10.2              |
| <b>Nontax Receipts</b>          | <b>\$64,872,430</b>           | <b>\$59,934,377</b>           | <b>8.2%</b>       | <b>\$286,661,124</b>        | <b>\$280,871,754</b>        | <b>2.1</b>        |
| Departmental Fees               | 5,577,042                     | 4,811,031                     | 15.9              | 22,542,182                  | 22,161,022                  | 1.7               |
| PSC Assessment Fee              | 2,456,506                     | 9                             | ---               | 13,568,805                  | 5,389,636                   | 151.8             |
| Fines & Forfeitures             | 6,358,132                     | 6,653,438                     | -4.4              | 25,405,780                  | 27,991,293                  | -9.2              |
| Interest on Investments         | 6,314,479                     | 174,205                       | 3,524.7           | 6,950,902                   | 1,017,305                   | 583.3             |
| Lottery                         | 41,500,000                    | 41,000,000                    | 1.2               | 161,252,000                 | 173,800,000                 | -7.2              |
| Sale of NOx Credits             | 0                             | 3,769,575                     | -100.0            | 3,696,675                   | 11,836,125                  | -68.8             |
| Miscellaneous                   | 2,666,271                     | 3,526,120                     | -24.4             | 53,244,780                  | 38,676,373                  | 37.7              |
| <b>Redeposit of State Funds</b> | <b>\$3,630,222</b>            | <b>\$3,299,265</b>            | <b>10.0%</b>      | <b>\$8,050,041</b>          | <b>\$10,460,857</b>         | <b>-23.0%</b>     |

**KENTUCKY STATE GOVERNMENT  
ROAD FUND REVENUE**

|                                 | <b>Fourth Quarter<br/>2004 - 2005</b> | <b>Fourth Quarter<br/>2003 - 2004</b> | <b>Percent<br/>Change</b> | <b>Year-To-Date<br/>2004 - 2005</b> | <b>Year-To-Date<br/>2003 - 2004</b> | <b>Percent<br/>Change</b> |
|---------------------------------|---------------------------------------|---------------------------------------|---------------------------|-------------------------------------|-------------------------------------|---------------------------|
| <b>TOTAL ROAD FUND</b>          | <b>\$298,867,126</b>                  | <b>\$288,232,371</b>                  | <b>3.7%</b>               | <b>\$1,126,554,402</b>              | <b>\$1,116,734,272</b>              | <b>0.9%</b>               |
| <b>Tax Receipts-</b>            | <b>\$288,925,388</b>                  | <b>\$281,566,191</b>                  | <b>2.6%</b>               | <b>\$1,094,354,041</b>              | <b>\$1,082,189,464</b>              | <b>1.1%</b>               |
| <b>Sales and Gross Receipts</b> | <b>\$231,860,039</b>                  | <b>\$227,257,403</b>                  | <b>2.0%</b>               | <b>\$898,340,426</b>                | <b>\$889,251,190</b>                | <b>1.0%</b>               |
| Motor Fuels Taxes               | 119,814,110                           | 114,237,838                           | 4.9                       | 469,621,779                         | 441,382,996                         | 6.4                       |
| Motor Fuels Use & Surtax        | 6,490,271                             | 3,930,768                             | 65.1                      | 20,748,200                          | 18,185,947                          | 14.1                      |
| Truck Trip Permits (fuel)       | 107,440                               | 123,320                               | -12.9                     | 445,085                             | 439,720                             | 1.2                       |
| Motor Vehicle Usage             | 105,448,217                           | 108,965,477                           | -3.2                      | 407,525,361                         | 429,242,527                         | -5.1                      |
| <b>License and Privilege</b>    | <b>\$57,065,349</b>                   | <b>\$54,308,788</b>                   | <b>5.1%</b>               | <b>\$196,013,615</b>                | <b>\$192,938,274</b>                | <b>1.6</b>                |
| Motor Vehicles                  | 31,142,050                            | 29,520,566                            | 5.5                       | 91,933,157                          | 93,388,573                          | -1.6                      |
| Motor Vehicle Operators         | 1,572,593                             | 1,479,936                             | 6.3                       | 5,899,247                           | 5,623,874                           | 4.9                       |
| Weight Distance                 | 20,672,156                            | 20,271,559                            | 2.0                       | 83,069,296                          | 79,574,022                          | 4.4                       |
| Truck Decal Fees                | 811,937                               | 598,647                               | 35.6                      | 1,041,912                           | 725,403                             | 43.6                      |
| Other Special Fees              | 2,866,613                             | 2,438,081                             | 17.6                      | 14,070,003                          | 13,626,402                          | 3.3                       |
| <b>Nontax Receipts</b>          | <b>\$9,260,892</b>                    | <b>\$6,567,153</b>                    | <b>41.0%</b>              | <b>\$30,432,049</b>                 | <b>\$32,932,009</b>                 | <b>-7.6%</b>              |
| Departmental Fees               | 3,806,631                             | 4,244,196                             | -10.3                     | 16,685,742                          | 15,258,391                          | 9.4                       |
| In Lieu of Traffic Fines        | 314,559                               | 367,647                               | -14.4                     | 1,326,645                           | 1,521,583                           | -12.8                     |
| Highway Tolls                   | 1,693,306                             | 1,719,240                             | -1.5                      | 6,299,049                           | 7,958,452                           | -20.9                     |
| Investment Income               | 3,198,904                             | 114,999                               | 2,681.7                   | 5,524,646                           | 7,507,462                           | -26.4                     |
| Miscellaneous                   | 247,492                               | 121,070                               | 104.4                     | 595,967                             | 686,121                             | -13.1                     |
| <b>Redeposit of State Funds</b> | <b>\$680,846</b>                      | <b>\$99,028</b>                       | <b>587.5%</b>             | <b>\$1,768,312</b>                  | <b>\$1,612,799</b>                  | <b>9.6%</b>               |

**APPENDIX B**  
*Summary Statistics for General and Road Funds*  
*Fiscal Years 1995/96 - 2004/05*

**SUMMARY STATISTICS FOR GENERAL FUND**  
**MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

|                                    | FY96                 | FY97                 | FY98                 | FY99                 | FY00                 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>TOTAL GENERAL FUND</b>          | <b>5,336,883,824</b> | <b>5,663,553,289</b> | <b>6,011,806,562</b> | <b>6,198,387,526</b> | <b>6,478,385,032</b> |
| <b>Tax Receipts</b>                | <b>5,095,157,184</b> | <b>5,408,832,505</b> | <b>5,722,452,611</b> | <b>5,917,216,646</b> | <b>6,200,475,504</b> |
| <b>Sales and Gross Receipts</b>    | <b>1,954,857,546</b> | <b>2,052,228,340</b> | <b>2,155,185,940</b> | <b>2,263,517,959</b> | <b>2,356,212,660</b> |
| Beer Consumption                   | 5,883,182            | 5,931,508            | 6,149,889            | 6,258,224            | 6,284,242            |
| Beer Wholesale                     | 28,606,167           | 28,898,911           | 29,787,991           | 30,612,099           | 32,101,648           |
| Cigarette <sup>1</sup>             | 15,680,704           | 16,044,967           | 15,130,443           | 14,673,839           | 14,184,888           |
| Cigarette Floor Stock <sup>2</sup> | ---                  | ---                  | ---                  | ---                  | ---                  |
| Distilled Spirits Case Sales       | 80,745               | 79,931               | 79,121               | 78,333               | 82,871               |
| Distilled Spirits Consumption      | 8,034,386            | 7,878,267            | 7,926,002            | 7,955,925            | 8,211,541            |
| Distilled Spirits Wholesale        | 12,378,310           | 12,590,305           | 12,974,726           | 13,398,478           | 14,055,368           |
| Insurance Premium                  | 87,295,673           | 85,917,179           | 90,231,192           | 90,171,779           | 95,355,564           |
| Pari-Mutuel                        | 7,148,951            | 5,911,958            | 4,845,922            | 7,179,163            | 6,645,098            |
| Race Track Admission               | 257,804              | 207,489              | 211,759              | 241,307              | 220,824              |
| Sales and Use                      | 1,783,881,316        | 1,882,681,995        | 1,981,297,580        | 2,085,899,677        | 2,171,397,969        |
| Wine Consumption                   | 1,518,350            | 1,538,033            | 1,615,634            | 1,625,711            | 1,748,839            |
| Wine Wholesale                     | 4,091,958            | 4,547,795            | 4,935,682            | 5,423,425            | 5,923,809            |
| <b>License and Privilege</b>       | <b>282,361,213</b>   | <b>340,636,686</b>   | <b>338,964,050</b>   | <b>349,549,943</b>   | <b>364,098,883</b>   |
| Alc. Bev. License & Suspension     | 1,867,529            | 1,996,165            | 549,768              | 87,800               | 49,150               |
| Coal Severance                     | 166,101,045          | 163,545,844          | 163,731,038          | 154,476,772          | 145,139,909          |
| Corporation License                | 90,525,391           | 107,498,746          | 112,793,160          | 125,912,523          | 139,127,819          |
| Corporation Organization           | 531,122              | 315,593              | 1,001,719            | 500,429              | 369,916              |
| Occupational Licenses              | 303,636              | 124,500              | 92,140               | 99,658               | 132,811              |
| Oil Production                     | 2,644,656            | 3,044,497            | 2,135,212            | 1,344,942            | 2,967,395            |
| Race Track License                 | 410,150              | 438,529              | 407,750              | 395,525              | 405,500              |
| Bank Franchise Tax <sup>3</sup>    | ---                  | 40,878,664           | 35,059,801           | 47,059,959           | 53,061,798           |
| Driver License Fees                | 2,598,899            | 2,742,540            | 3,001,375            | 717,453              | 475,167              |
| Minerals Severance                 | 9,349,609            | 10,443,023           | 11,115,009           | 11,848,098           | 13,923,246           |
| Natural Gas Severance              | 8,029,176            | 9,608,586            | 9,077,076            | 7,106,785            | 8,446,173            |
| <b>Income</b>                      | <b>2,359,304,740</b> | <b>2,497,776,090</b> | <b>2,751,810,830</b> | <b>2,844,072,023</b> | <b>3,008,055,957</b> |
| Corporation                        | 284,732,573          | 292,753,126          | 333,666,392          | 312,066,675          | 306,442,050          |
| Individual                         | 2,074,572,167        | 2,205,022,964        | 2,418,144,438        | 2,532,005,348        | 2,701,613,908        |
| <b>Property</b>                    | <b>409,176,706</b>   | <b>414,858,124</b>   | <b>362,792,504</b>   | <b>370,404,549</b>   | <b>387,257,800</b>   |
| Bank Deposits                      | 297,123              | 611,478              | 324,856              | 398,666              | 433,962              |
| Building & Loan Association        | 3,565,375            | 5,799,678            | 4,533,322            | 3,046,010            | 2,491,414            |
| Distilled Spirits                  | 395,819              | 390,594              | 389,838              | 417,610              | 443,880              |
| General - Intangible <sup>4</sup>  | 66,489,089           | 46,631,437           | 21,129,328           | 18,103,920           | 22,721,743           |
| General - Real <sup>5</sup>        | 142,728,406          | 170,063,059          | 154,245,454          | 161,723,137          | 167,326,472          |
| General - Tangible <sup>5</sup>    | 137,812,773          | 124,637,468          | 125,753,465          | 125,564,658          | 130,960,896          |
| Omitted & Delinquent               | 17,199,556           | 15,098,758           | 13,019,424           | 11,926,947           | 15,543,134           |
| Public Service                     | 37,253,318           | 49,915,716           | 43,528,408           | 50,461,577           | 46,882,427           |
| Other                              | 3,435,248            | 1,709,936            | (131,590)            | (1,237,976)          | 453,871              |
| <b>Inheritance<sup>6</sup></b>     | <b>81,441,427</b>    | <b>95,287,282</b>    | <b>105,538,130</b>   | <b>81,483,083</b>    | <b>74,489,981</b>    |
| <b>Miscellaneous</b>               | <b>8,015,552</b>     | <b>8,045,984</b>     | <b>8,161,157</b>     | <b>8,189,088</b>     | <b>10,360,222</b>    |
| Legal Process                      | 3,324,992            | 3,341,859            | 3,468,753            | 3,568,621            | 3,457,280            |
| T. V. A. In Lieu Payments          | 4,654,340            | 4,550,012            | 4,646,467            | 4,586,009            | 6,842,117            |
| Other                              | 36,220               | 154,113              | 45,937               | 34,458               | 60,824               |
| <b>Nontax Receipts</b>             | <b>238,968,407</b>   | <b>252,375,721</b>   | <b>284,461,380</b>   | <b>272,298,984</b>   | <b>271,911,197</b>   |
| Departmental Fees <sup>7</sup>     | 19,994,129           | 22,588,313           | 21,975,158           | 26,095,000           | 32,719,509           |
| PSC Assessment Fee <sup>7</sup>    | ---                  | ---                  | ---                  | ---                  | ---                  |
| Fines & Forfeitures                | 33,858,903           | 38,909,723           | 40,670,559           | 45,023,992           | 46,056,986           |
| Interest on Investments            | 30,397,988           | 30,966,219           | 60,019,607           | 38,324,530           | 28,077,454           |
| Lottery                            | 147,000,000          | 151,000,000          | 153,000,000          | 153,800,000          | 156,300,000          |
| Sale of NOx Credits <sup>8</sup>   | ---                  | ---                  | ---                  | ---                  | ---                  |
| Miscellaneous                      | 7,717,386            | 8,911,466            | 8,796,056            | 9,055,462            | 8,757,248            |
| <b>Redeposit of State Funds</b>    | <b>2,758,234</b>     | <b>2,345,063</b>     | <b>4,892,572</b>     | <b>8,871,896</b>     | <b>5,998,332</b>     |

(Footnotes appear at end of table)

**SUMMARY STATISTICS FOR GENERAL FUND**  
**MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

|                                    | FY01                 | FY02                 | FY03                 | FY04                 | FY05                 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>TOTAL GENERAL FUND</b>          | <b>6,653,897,653</b> | <b>6,560,216,551</b> | <b>6,783,458,295</b> | <b>6,977,623,200</b> | <b>7,645,046,634</b> |
| <b>Tax Receipts</b>                | <b>6,377,917,219</b> | <b>6,292,004,457</b> | <b>6,543,157,657</b> | <b>6,686,290,589</b> | <b>7,350,335,469</b> |
| <b>Sales and Gross Receipts</b>    | <b>2,435,481,566</b> | <b>2,497,020,953</b> | <b>2,577,542,870</b> | <b>2,668,210,228</b> | <b>2,838,701,120</b> |
| Beer Consumption                   | 6,272,031            | 6,286,734            | 6,334,169            | 6,320,886            | 6,387,318            |
| Beer Wholesale                     | 32,582,889           | 34,596,592           | 35,969,890           | 37,439,919           | 37,815,717           |
| Cigarette <sup>1</sup>             | 14,007,582           | 13,943,208           | 16,367,947           | 17,136,198           | 24,966,880           |
| Cigarette Floor Stock <sup>2</sup> | ---                  | ---                  | ---                  | ---                  | 8,701,966            |
| Distilled Spirits Case Sales       | 82,529               | 81,922               | 85,601               | 87,662               | 92,178               |
| Distilled Spirits Consumption      | 8,184,798            | 8,266,005            | 8,680,833            | 8,985,826            | 9,190,089            |
| Distilled Spirits Wholesale        | 14,809,730           | 15,129,146           | 16,088,048           | 16,957,192           | 18,150,313           |
| Insurance Premium                  | 96,825,818           | 105,102,951          | 114,988,790          | 120,523,955          | 123,410,091          |
| Pari-Mutuel                        | 6,182,083            | 5,179,952            | 5,953,247            | 3,629,292            | 4,710,111            |
| Race Track Admission               | 216,615              | 260,232              | 193,114              | 232,350              | 195,068              |
| Sales and Use                      | 2,248,471,100        | 2,299,990,621        | 2,364,182,478        | 2,447,584,698        | 2,594,966,373        |
| Wine Consumption                   | 1,743,393            | 1,786,984            | 1,902,818            | 2,005,265            | 2,279,162            |
| Wine Wholesale                     | 6,102,998            | 6,396,603            | 6,795,936            | 7,306,985            | 7,835,853            |
| <b>License and Privilege</b>       | <b>373,309,229</b>   | <b>356,591,984</b>   | <b>379,857,645</b>   | <b>368,122,494</b>   | <b>427,823,269</b>   |
| Alc. Bev. License & Suspension     | 193,800              | 220,800              | 227,850              | 223,700              | 237,101              |
| Coal Severance                     | 141,553,087          | 160,160,116          | 141,664,981          | 147,498,230          | 184,436,935          |
| Corporation License                | 147,515,402          | 117,500,770          | 152,595,257          | 124,096,012          | 134,149,794          |
| Corporation Organization           | 227,655              | 144,233              | 190,494              | 143,804              | 613,048              |
| Occupational Licenses              | 107,737              | 226,609              | 197,977              | 223,002              | 188,761              |
| Oil Production                     | 3,358,036            | 2,590,722            | 3,116,954            | 3,387,884            | 4,710,832            |
| Race Track License                 | 320,800              | 37,423               | 322,825              | 335,625              | 324,642              |
| Bank Franchise Tax <sup>3</sup>    | 49,610,220           | 50,549,169           | 53,747,906           | 55,467,195           | 63,837,587           |
| Driver License Fees                | 391,939              | 505,187              | 499,003              | 523,979              | 522,904              |
| Minerals Severance                 | 12,710,667           | 12,355,174           | 12,580,912           | 13,711,874           | 13,494,541           |
| Natural Gas Severance              | 17,319,885           | 12,301,781           | 14,713,486           | 22,511,188           | 25,307,125           |
| <b>Income</b>                      | <b>3,068,472,461</b> | <b>2,909,863,799</b> | <b>3,024,422,738</b> | <b>3,099,593,870</b> | <b>3,514,735,211</b> |
| Corporation                        | 289,931,017          | 207,353,777          | 278,035,794          | 303,262,821          | 478,504,505          |
| Individual                         | 2,778,541,444        | 2,702,510,022        | 2,746,386,944        | 2,796,331,049        | 3,036,230,706        |
| <b>Property</b>                    | <b>407,494,858</b>   | <b>433,029,587</b>   | <b>434,768,249</b>   | <b>448,765,511</b>   | <b>472,596,276</b>   |
| Bank Deposits                      | 412,646              | 460,334              | 456,527              | 467,711              | 474,098              |
| Building & Loan Association        | 2,482,623            | 2,249,927            | 3,181,373            | 2,513,083            | 3,192,911            |
| Distilled Spirits                  | 360,248              | 363,410              | 442,092              | 375,637              | 388,612              |
| General - Intangible <sup>4</sup>  | 22,551,153           | 23,113,567           | 25,883,197           | 27,547,183           | 26,912,813           |
| General - Real <sup>5</sup>        | 171,524,695          | 179,678,050          | 186,000,177          | 192,534,530          | 202,182,555          |
| General - Tangible <sup>5</sup>    | 140,466,295          | 151,308,795          | 149,426,286          | 149,155,206          | 159,883,091          |
| Omitted & Delinquent               | 20,605,462           | 25,649,592           | 20,368,623           | 15,829,225           | 20,646,846           |
| Public Service                     | 48,883,924           | 49,991,359           | 48,836,372           | 60,178,393           | 58,787,595           |
| Other                              | 207,812              | 214,551              | 173,603              | 164,542              | 127,756              |
| <b>Inheritance<sup>6</sup></b>     | <b>83,461,499</b>    | <b>83,359,872</b>    | <b>95,864,480</b>    | <b>66,083,705</b>    | <b>63,174,866</b>    |
| <b>Miscellaneous</b>               | <b>9,697,606</b>     | <b>12,138,263</b>    | <b>30,701,674</b>    | <b>35,514,782</b>    | <b>33,304,727</b>    |
| Legal Process                      | 3,597,385            | 5,263,021            | 22,994,148           | 27,322,798           | 24,696,032           |
| T. V. A. In Lieu Payments          | 6,046,676            | 6,814,492            | 7,660,437            | 8,146,924            | 8,559,023            |
| Other                              | 53,545               | 60,750               | 47,090               | 45,061               | 49,672               |
| <b>Nontax Receipts</b>             | <b>266,792,632</b>   | <b>260,466,324</b>   | <b>233,694,271</b>   | <b>280,871,754</b>   | <b>286,661,124</b>   |
| Departmental Fees <sup>7</sup>     | 17,062,102           | 19,570,116           | 21,982,797           | 22,161,022           | 22,542,182           |
| PSC Assessment Fee <sup>7</sup>    | 12,598,397           | 10,455,826           | 8,702,466            | 5,389,636            | 13,568,805           |
| Fines & Forfeitures                | 40,749,856           | 40,069,496           | 28,888,326           | 27,991,293           | 25,405,780           |
| Interest on Investments            | 28,217,850           | 13,342,627           | (7,157,704)          | 1,017,305            | 6,950,902            |
| Lottery                            | 157,030,000          | 169,000,000          | 171,000,000          | 173,800,000          | 161,252,000          |
| Sale of NOx Credits <sup>8</sup>   | ---                  | ---                  | ---                  | 11,836,125           | 3,696,675            |
| Miscellaneous                      | 11,134,428           | 8,028,259            | 10,278,386           | 38,676,373           | 53,244,780           |
| <b>Redeposit of State Funds</b>    | <b>9,187,802</b>     | <b>7,745,769</b>     | <b>6,606,367</b>     | <b>10,460,857</b>    | <b>8,050,041</b>     |

(Footnotes appear at end of table)

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**GENERAL FUND GROWTH RATES**  
**MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

|                                    | FY96         | FY97          | FY98          | FY99          | FY00          |
|------------------------------------|--------------|---------------|---------------|---------------|---------------|
| <b>TOTAL GENERAL FUND</b>          | <b>3.5%</b>  | <b>6.1%</b>   | <b>6.1%</b>   | <b>3.1%</b>   | <b>4.5%</b>   |
| <b>Tax Receipts</b>                | <b>3.3%</b>  | <b>6.2%</b>   | <b>5.8%</b>   | <b>3.4%</b>   | <b>4.8%</b>   |
| <b>Sales and Gross Receipts</b>    | <b>6.0%</b>  | <b>5.0%</b>   | <b>5.0%</b>   | <b>5.0%</b>   | <b>4.1%</b>   |
| Beer Consumption                   | -2.5%        | 0.8%          | 3.7%          | 1.8%          | 0.4%          |
| Beer Wholesale                     | 3.0%         | 1.0%          | 3.1%          | 2.8%          | 4.9%          |
| Cigarette <sup>1</sup>             | 3.7%         | 2.3%          | -5.7%         | -3.0%         | -3.3%         |
| Cigarette Floor Stock <sup>2</sup> | ---          | ---           | ---           | ---           | ---           |
| Distilled Spirits Case Sales       | 0.7%         | -1.0%         | -1.0%         | -1.0%         | 5.8%          |
| Distilled Spirits Consumption      | 2.0%         | -1.9%         | 0.6%          | 0.4%          | 3.2%          |
| Distilled Spirits Wholesale        | 3.7%         | 1.7%          | 3.1%          | 3.3%          | 4.9%          |
| Insurance Premium                  | 6.7%         | -1.6%         | 5.0%          | -0.1%         | 5.7%          |
| Pari-Mutuel                        | -1.5%        | -17.3%        | -18.0%        | 48.1%         | -7.4%         |
| Race Track Admission               | -11.9%       | -19.5%        | 2.1%          | 14.0%         | -8.5%         |
| Sales and Use                      | 6.2%         | 5.5%          | 5.2%          | 5.3%          | 4.1%          |
| Wine Consumption                   | 13.3%        | 1.3%          | 5.0%          | 0.6%          | 7.6%          |
| Wine Wholesale                     | 16.7%        | 11.1%         | 8.5%          | 9.9%          | 9.2%          |
| <b>License and Privilege</b>       | <b>-5.7%</b> | <b>20.6%</b>  | <b>-0.5%</b>  | <b>3.1%</b>   | <b>4.2%</b>   |
| Alc. Bev. License Suspension       | -6.0%        | 6.9%          | -72.5%        | -84.0%        | -44.0%        |
| Coal Severance                     | -7.3%        | -1.5%         | 0.1%          | -5.7%         | -6.0%         |
| Corporation License                | -7.1%        | 18.7%         | 4.9%          | 11.6%         | 10.5%         |
| Corporation Organization           | 285.8%       | -40.6%        | 217.4%        | -50.0%        | -26.1%        |
| Occupational Licenses              | 163.2%       | -59.0%        | -26.0%        | 8.2%          | 33.3%         |
| Oil Production                     | -5.0%        | 15.1%         | -29.9%        | -37.0%        | 120.6%        |
| Race Track License                 | -12.8%       | 6.9%          | -7.0%         | -3.0%         | 2.5%          |
| Bank Franchise Tax <sup>3</sup>    |              |               | -14.2%        | 34.2%         | 12.8%         |
| Driver License Fees                | 1.4%         | 5.5%          | 9.4%          | -76.1%        | -33.8%        |
| Minerals Severance                 | 6.1%         | 11.7%         | 6.4%          | 6.6%          | 17.5%         |
| Natural Gas Severance              | 34.4%        | 19.7%         | -5.5%         | -21.7%        | 18.8%         |
| <b>Income</b>                      | <b>2.3%</b>  | <b>5.9%</b>   | <b>10.2%</b>  | <b>3.4%</b>   | <b>5.8%</b>   |
| Corporation                        | -16.5%       | 2.8%          | 14.0%         | -6.5%         | -1.8%         |
| Individual                         | 5.6%         | 6.3%          | 9.7%          | 4.7%          | 6.7%          |
| <b>Property</b>                    | <b>3.5%</b>  | <b>1.4%</b>   | <b>-12.6%</b> | <b>2.1%</b>   | <b>4.5%</b>   |
| Bank Deposits                      | -3.4%        | 105.8%        | -46.9%        | 22.7%         | 8.9%          |
| Building & Loan Association        | -38.7%       | 62.7%         | -21.8%        | -32.8%        | -18.2%        |
| Distilled Spirits                  | 3.3%         | -1.3%         | -0.2%         | 7.1%          | 6.3%          |
| General - Intangible <sup>4</sup>  | -20.4%       | -29.9%        | -54.7%        | -14.3%        | 25.5%         |
| General - Real <sup>5</sup>        | 7.2%         | 19.2%         | -9.3%         | 4.8%          | 3.5%          |
| General - Tangible <sup>5</sup>    | 20.8%        | -9.6%         | 0.9%          | -0.2%         | 4.3%          |
| Omitted & Delinquent               | -2.4%        | -12.2%        | -13.8%        | -8.4%         | 30.3%         |
| Public Service                     | 2.9%         | 34.0%         | -12.8%        | 15.9%         | -7.1%         |
| Other                              | -18.4%       | -50.2%        | -107.7%       | 840.8%        | ---           |
| <b>Inheritance<sup>6</sup></b>     | <b>2.4%</b>  | <b>17.0%</b>  | <b>10.8%</b>  | <b>-22.8%</b> | <b>-8.6%</b>  |
| <b>Miscellaneous</b>               | <b>5.1%</b>  | <b>0.4%</b>   | <b>1.4%</b>   | <b>0.3%</b>   | <b>26.5%</b>  |
| Legal Process                      | 1.2%         | 0.5%          | 3.8%          | 2.9%          | -3.1%         |
| T. V. A. In Lieu Payments          | 8.5%         | -2.2%         | 2.1%          | -1.3%         | 49.2%         |
| Other                              | -26.3%       | 325.5%        | -70.2%        | -25.0%        | 76.5%         |
| <b>Nontax Receipts</b>             | <b>8.3%</b>  | <b>5.6%</b>   | <b>12.7%</b>  | <b>-4.3%</b>  | <b>-0.1%</b>  |
| Departmental Fees <sup>7</sup>     | -5.6%        | 13.0%         | -2.7%         | 18.7%         | 25.4%         |
| PSC Assessment Fee <sup>7</sup>    |              |               |               |               |               |
| Fines & Forfeitures                | -0.3%        | 14.9%         | 4.5%          | 10.7%         | 2.3%          |
| Interest on Investments            | 43.7%        | 1.9%          | 93.8%         | -36.1%        | -26.7%        |
| Lottery                            | 8.1%         | 2.7%          | 1.3%          | 0.5%          | 1.6%          |
| Sale of NOx Credits <sup>8</sup>   | ---          | ---           | ---           | ---           | ---           |
| Miscellaneous                      | -7.6%        | 15.5%         | -1.3%         | 2.9%          | -3.3%         |
| <b>Redeposit of State Funds</b>    | <b>23.0%</b> | <b>-15.0%</b> | <b>108.6%</b> | <b>81.3%</b>  | <b>-32.4%</b> |

(Footnotes appear at end of table)

**GENERAL FUND GROWTH RATES**  
**MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

|                                    | FY01         | FY02          | FY03          | FY04          | FY05          |
|------------------------------------|--------------|---------------|---------------|---------------|---------------|
| <b>TOTAL GENERAL FUND</b>          | <b>2.7%</b>  | <b>-1.4%</b>  | <b>3.4%</b>   | <b>2.9%</b>   | <b>9.6%</b>   |
| <b>Tax Receipts</b>                | <b>2.9%</b>  | <b>-1.3%</b>  | <b>4.0%</b>   | <b>2.2%</b>   | <b>9.9%</b>   |
| <b>Sales and Gross Receipts</b>    | <b>3.4%</b>  | <b>2.5%</b>   | <b>3.2%</b>   | <b>3.5%</b>   | <b>6.4%</b>   |
| Beer Consumption                   | -0.2%        | 0.2%          | 0.8%          | -0.2%         | 1.1%          |
| Beer Wholesale                     | 1.5%         | 6.2%          | 4.0%          | 4.1%          | 1.0%          |
| Cigarette <sup>1</sup>             | -1.2%        | -0.5%         | 17.4%         | 4.7%          | 45.7%         |
| Cigarette Floor Stock <sup>2</sup> | ---          | ---           | ---           | ---           | ---           |
| Distilled Spirits Case Sales       | -0.4%        | -0.7%         | 4.5%          | 2.4%          | <b>5.2%</b>   |
| Distilled Spirits Consumption      | -0.3%        | 1.0%          | 5.0%          | 3.5%          | 2.3%          |
| Distilled Spirits Wholesale        | 5.4%         | 2.2%          | 6.3%          | 5.4%          | 7.0%          |
| Insurance Premium                  | 1.5%         | 8.5%          | 9.4%          | 4.8%          | 2.4%          |
| Pari-Mutuel                        | -7.0%        | -16.2%        | 14.9%         | -39.0%        | 29.8%         |
| Race Track Admission               | -1.9%        | 20.1%         | -25.8%        | 20.3%         | -16.0%        |
| Sales and Use                      | 3.5%         | 2.3%          | 2.8%          | 3.5%          | 6.0%          |
| Wine Consumption                   | -0.3%        | 2.5%          | 6.5%          | 5.4%          | 13.7%         |
| Wine Wholesale                     | 3.0%         | 4.8%          | 6.2%          | 7.5%          | 7.2%          |
| <b>License and Privilege</b>       | <b>2.5%</b>  | <b>-4.5%</b>  | <b>6.5%</b>   | <b>-3.1%</b>  | <b>16.2%</b>  |
| Alc. Bev. License Suspension       | 294.3%       | 13.9%         | 3.2%          | -1.8%         | 6.0%          |
| Coal Severance                     | -2.5%        | 13.1%         | -11.5%        | 4.1%          | 25.0%         |
| Corporation License                | 6.0%         | -20.3%        | 29.9%         | -18.7%        | 8.1%          |
| Corporation Organization           | -38.5%       | -36.6%        | 32.1%         | -24.5%        | 326.3%        |
| Occupational Licenses              | -18.9%       | 110.3%        | -12.6%        | 12.6%         | -15.4%        |
| Oil Production                     | 13.2%        | -22.9%        | 20.3%         | 8.7%          | 39.0%         |
| Race Track License                 | -20.9%       | -88.3%        | 762.6%        | 4.0%          | -3.3%         |
| Bank Franchise Tax <sup>3</sup>    | -6.5%        | 1.9%          | 6.3%          | 3.2%          | 15.1%         |
| Driver License Fees                | -17.5%       | 28.9%         | -1.2%         | 5.0%          | -0.2%         |
| Minerals Severance                 | -8.7%        | -2.8%         | 1.8%          | 9.0%          | -1.6%         |
| Natural Gas Severance              | 105.1%       | -29.0%        | 19.6%         | 53.0%         | 12.4%         |
| <b>Income</b>                      | <b>2.0%</b>  | <b>-5.2%</b>  | <b>3.9%</b>   | <b>2.5%</b>   | <b>13.4%</b>  |
| Corporation                        | -5.4%        | -28.5%        | 34.1%         | 9.1%          | 57.8%         |
| Individual                         | 2.8%         | -2.7%         | 1.6%          | 1.8%          | 8.6%          |
| <b>Property</b>                    | <b>5.2%</b>  | <b>6.3%</b>   | <b>0.4%</b>   | <b>3.2%</b>   | <b>5.3%</b>   |
| Bank Deposits                      | -4.9%        | 11.6%         | -0.8%         | 2.4%          | 1.4%          |
| Building & Loan Association        | -0.4%        | -9.4%         | 41.4%         | -21.0%        | 27.1%         |
| Distilled Spirits                  | -18.8%       | 0.9%          | 21.7%         | -15.0%        | 3.5%          |
| General - Intangible <sup>4</sup>  | -0.8%        | 2.5%          | 12.0%         | 6.4%          | -2.3%         |
| General - Real <sup>5</sup>        | 2.5%         | 4.8%          | 3.5%          | 3.5%          | 5.0%          |
| General - Tangible <sup>5</sup>    | 7.3%         | 7.7%          | -1.2%         | -0.2%         | 7.2%          |
| Omitted & Delinquent               | 32.6%        | 24.5%         | -20.6%        | -22.3%        | 30.4%         |
| Public Service                     | 4.3%         | 2.3%          | -2.3%         | 23.2%         | -2.3%         |
| Other                              | ---          | 3.2%          | -19.1%        | -5.2%         | -22.4%        |
| <b>Inheritance<sup>6</sup></b>     | <b>12.0%</b> | <b>-0.1%</b>  | <b>15.0%</b>  | <b>-31.1%</b> | <b>-4.4%</b>  |
| <b>Miscellaneous</b>               | <b>-6.4%</b> | <b>25.2%</b>  | <b>152.9%</b> | <b>15.7%</b>  | <b>-6.2%</b>  |
| Legal Process                      | 4.1%         | 46.3%         | 336.9%        | 18.8%         | -9.6%         |
| T. V. A. In Lieu Payments          | -11.6%       | 12.7%         | 12.4%         | 6.4%          | 5.1%          |
| Other                              | -12.0%       | 13.5%         | -22.5%        | -4.3%         | 10.2%         |
| <b>Nontax Receipts</b>             | <b>-1.9%</b> | <b>-2.4%</b>  | <b>-10.3%</b> | <b>20.2%</b>  | <b>2.1%</b>   |
| Departmental Fees <sup>7</sup>     | -9.3%        | 14.7%         | 12.3%         | 0.8%          | 1.7%          |
| PSC Assessment Fee <sup>7</sup>    |              | -17.0%        | -16.8%        | -38.1%        | 151.8%        |
| Fines & Forfeitures                | -11.5%       | -1.7%         | -27.9%        | -3.1%         | -9.2%         |
| Interest on Investments            | 0.5%         | -52.7%        | ---           | ---           | 583.3%        |
| Lottery                            | 0.5%         | 7.6%          | 1.2%          | 1.6%          | -7.2%         |
| Sale of NOx Credits <sup>8</sup>   | ---          | ---           | ---           | ---           | -68.8%        |
| Miscellaneous                      | 27.1%        | -27.9%        | 28.0%         | 276.3%        | 37.7%         |
| <b>Redeposit of State Funds</b>    | <b>53.2%</b> | <b>-15.7%</b> | <b>-14.7%</b> | <b>58.3%</b>  | <b>-23.0%</b> |

(Footnotes appear at end of tables)

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**SUMMARY STATISTICS FOR ROAD FUND  
MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

|                                 | FY96               | FY97               | FY98                 | FY99                 | FY00                 |
|---------------------------------|--------------------|--------------------|----------------------|----------------------|----------------------|
| <b>TOTAL STATE ROAD FUND</b>    | <b>939,910,490</b> | <b>960,183,780</b> | <b>1,011,789,674</b> | <b>1,056,596,153</b> | <b>1,090,777,822</b> |
| <b>Tax Receipts-</b>            | <b>879,869,850</b> | <b>901,229,996</b> | <b>942,129,035</b>   | <b>991,641,312</b>   | <b>1,031,467,147</b> |
| <b>Sales and Gross Receipts</b> | <b>729,001,622</b> | <b>748,015,044</b> | <b>780,911,374</b>   | <b>820,802,014</b>   | <b>849,700,352</b>   |
| Motor Fuels Taxes               | 378,142,941        | 390,688,336        | 396,123,781          | 427,848,100          | 423,876,351          |
| Motor Fuels Use & Surtax        | 22,554,473         | 15,316,702         | 17,473,744           | 16,853,163           | 15,905,613           |
| Truck Trip Permits (fuel)       | 629,763            | 492,400            | 521,868              | 441,870              | 451,689              |
| Motor Vehicle Usage             | 327,674,445        | 341,517,606        | 366,791,982          | 375,658,882          | 409,466,699          |
| <b>License and Privilege</b>    | <b>150,868,228</b> | <b>153,214,952</b> | <b>161,217,661</b>   | <b>170,839,298</b>   | <b>181,766,795</b>   |
| Motor Vehicles                  | 72,764,120         | 71,324,666         | 74,397,814           | 80,133,334           | 85,623,787           |
| Motor Vehicle Operators         | 5,110,387          | 5,355,648          | 5,610,817            | 5,400,685            | 5,689,329            |
| Weight Distance                 | 59,809,913         | 63,061,494         | 66,665,457           | 70,155,867           | 75,144,201           |
| Truck Decal Fees                | 858,903            | 818,525            | 808,104              | 822,074              | 738,342              |
| Other Special Fees              | 12,324,905         | 12,654,620         | 13,735,469           | 14,327,339           | 14,571,136           |
| <b>Nontax Receipts</b>          | <b>58,356,382</b>  | <b>58,796,377</b>  | <b>69,349,054</b>    | <b>64,340,643</b>    | <b>58,580,537</b>    |
| Departmental Fees               | 9,805,190          | 11,096,006         | 12,026,690           | 12,949,131           | 13,184,983           |
| In Lieu of Traffic Fines        | 1,011,351          | 1,255,822          | 1,344,786            | 1,575,742            | 1,662,261            |
| Highway Tolls                   | 11,896,026         | 12,585,961         | 12,998,548           | 13,342,667           | 13,474,101           |
| Investment Income               | 33,779,249         | 31,833,792         | 41,950,532           | 35,588,653           | 29,418,349           |
| Miscellaneous                   | 1,864,566          | 2,024,797          | 1,028,499            | 884,451              | 840,843              |
| <b>Redeposit of State Funds</b> | <b>1,684,258</b>   | <b>157,407</b>     | <b>311,586</b>       | <b>614,199</b>       | <b>730,138</b>       |

(Footnotes appear at end of table)

|                                 | FY01                 | FY02                 | FY03                 | FY04                 | FY05                 |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>TOTAL STATE ROAD FUND</b>    | <b>1,064,181,565</b> | <b>1,119,005,317</b> | <b>1,123,103,133</b> | <b>1,116,734,272</b> | <b>1,126,554,402</b> |
| <b>Tax Receipts-</b>            | <b>992,142,884</b>   | <b>1,052,848,911</b> | <b>1,059,296,184</b> | <b>1,082,189,464</b> | <b>1,094,354,041</b> |
| <b>Sales and Gross Receipts</b> | <b>821,552,966</b>   | <b>873,623,010</b>   | <b>886,809,027</b>   | <b>889,251,190</b>   | <b>898,340,426</b>   |
| Motor Fuels Taxes               | 408,801,115          | 429,812,296          | 438,564,438          | 441,382,996          | 469,621,779          |
| Motor Fuels Use & Surtax        | 15,492,738           | 14,124,035           | 14,969,884           | 18,185,947           | 20,748,200           |
| Truck Trip Permits (fuel)       | 447,020              | 383,460              | 371,406              | 439,720              | 445,085              |
| Motor Vehicle Usage             | 396,812,093          | 429,303,220          | 432,903,299          | 429,242,527          | 407,525,361          |
| <b>License and Privilege</b>    | <b>170,589,918</b>   | <b>179,225,901</b>   | <b>172,487,157</b>   | <b>192,938,274</b>   | <b>196,013,615</b>   |
| Motor Vehicles                  | 76,861,958           | 84,510,332           | 76,192,363           | 93,388,573           | 91,933,157           |
| Motor Vehicle Operators         | 5,592,769            | 5,564,009            | 5,610,829            | 5,623,874            | 5,899,247            |
| Weight Distance                 | 75,170,141           | 75,265,639           | 76,851,211           | 79,574,022           | 83,069,296           |
| Truck Decal Fees                | 727,675              | 807,089              | 673,481              | 725,403              | 1,041,912            |
| Other Special Fees              | 12,237,376           | 13,078,832           | 13,159,273           | 13,626,402           | 14,070,003           |
| <b>Nontax Receipts</b>          | <b>69,204,781</b>    | <b>64,071,745</b>    | <b>62,789,372</b>    | <b>32,932,009</b>    | <b>30,432,049</b>    |
| Departmental Fees               | 13,772,863           | 15,137,452           | 18,430,002           | 15,258,391           | 16,685,742           |
| In Lieu of Traffic Fines        | 2,005,215            | 1,960,687            | 1,374,668            | 1,521,583            | 1,326,645            |
| Highway Tolls                   | 12,410,901           | 13,785,486           | 13,263,429           | 7,958,452            | 6,299,049            |
| Investment Income               | 40,187,239           | 32,156,652           | 29,115,311           | 7,507,462            | 5,524,646            |
| Miscellaneous                   | 828,562              | 1,031,468            | 605,962              | 686,121              | 595,967              |
| <b>Redeposit of State Funds</b> | <b>2,833,900</b>     | <b>2,084,661</b>     | <b>1,017,577</b>     | <b>1,612,799</b>     | <b>1,768,312</b>     |

(Footnotes appear at end of table)



**ROAD FUND GROWTH RATES**  
**MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

|                                 | FY96          | FY97          | FY98         | FY99         | FY00         |
|---------------------------------|---------------|---------------|--------------|--------------|--------------|
| <b>TOTAL STATE ROAD FUND</b>    | <b>4.4%</b>   | <b>2.2%</b>   | <b>5.4%</b>  | <b>4.4%</b>  | <b>3.2%</b>  |
| <b>Tax Receipts-</b>            | <b>3.4%</b>   | <b>2.4%</b>   | <b>4.5%</b>  | <b>5.3%</b>  | <b>4.0%</b>  |
| <b>Sales and Gross Receipts</b> | <b>3.6%</b>   | <b>2.6%</b>   | <b>4.4%</b>  | <b>5.1%</b>  | <b>3.5%</b>  |
| Motor Fuels Taxes               | 1.3%          | 3.3%          | 1.4%         | 8.0%         | -0.9%        |
| Motor Fuels Use & Surtax        | -2.2%         | -32.1%        | 14.1%        | -3.6%        | -5.6%        |
| Truck Trip Permits (fuel)       | -2.2%         | -21.8%        | 6.0%         | -15.3%       | 2.2%         |
| Motor Vehicle Usage             | 6.8%          | 4.2%          | 7.4%         | 2.4%         | 9.0%         |
| <b>License and Privilege</b>    | <b>2.4%</b>   | <b>1.6%</b>   | <b>5.2%</b>  | <b>6.0%</b>  | <b>6.9%</b>  |
| Motor Vehicles                  | 6.6%          | -2.0%         | 4.3%         | 7.7%         | 7.7%         |
| Motor Vehicle Operators         | -1.2%         | 4.8%          | 4.8%         | -3.7%        | 5.3%         |
| Weight Distance                 | 4.5%          | 5.4%          | 5.7%         | 5.2%         | 7.1%         |
| Truck Decal Fees                | -8.8%         | -4.7%         | -1.3%        | 1.7%         | -10.2%       |
| Other Special Fees              | -21.6%        | 2.7%          | 8.5%         | 4.3%         | 1.7%         |
| <b>Nontax Receipts</b>          | <b>18.7%</b>  | <b>0.8%</b>   | <b>17.9%</b> | <b>-7.2%</b> | <b>-9.0%</b> |
| Departmental Fees               | -13.8%        | 13.2%         | 8.4%         | 7.7%         | 1.8%         |
| In Lieu of Traffic Fines        | 2.8%          | 24.2%         | 7.1%         | 17.2%        | 5.5%         |
| Highway Tolls                   | 1.9%          | 5.8%          | 3.3%         | 2.6%         | 1.0%         |
| Investment Income               | 51.5%         | -5.8%         | 31.8%        | -15.2%       | -17.3%       |
| Miscellaneous                   | -34.0%        | 8.6%          | -49.2%       | -14.0%       | -4.9%        |
| <b>Redeposit of State Funds</b> | <b>441.1%</b> | <b>-90.7%</b> | <b>97.9%</b> | <b>97.1%</b> | <b>18.9%</b> |

(Footnotes appear at end of tables)

|                                 | FY01          | FY02          | FY03          | FY04          | FY05         |
|---------------------------------|---------------|---------------|---------------|---------------|--------------|
| <b>TOTAL STATE ROAD FUND</b>    | <b>-2.4%</b>  | <b>5.2%</b>   | <b>0.4%</b>   | <b>-0.6%</b>  | <b>0.9%</b>  |
| <b>Tax Receipts-</b>            | <b>-3.8%</b>  | <b>6.1%</b>   | <b>0.6%</b>   | <b>2.2%</b>   | <b>1.1%</b>  |
| <b>Sales and Gross Receipts</b> | <b>-3.3%</b>  | <b>6.3%</b>   | <b>1.5%</b>   | <b>0.3%</b>   | <b>1.0%</b>  |
| Motor Fuels Taxes               | -3.6%         | 5.1%          | 2.0%          | 0.6%          | 6.4%         |
| Motor Fuels Use & Surtax        | -2.6%         | -8.8%         | 6.0%          | 21.5%         | 14.1%        |
| Truck Trip Permits (fuel)       | -1.0%         | -14.2%        | -3.1%         | 18.4%         | 1.2%         |
| Motor Vehicle Usage             | -3.1%         | 8.2%          | 0.8%          | -0.8%         | -5.1%        |
| <b>License and Privilege</b>    | <b>-6.8%</b>  | <b>5.1%</b>   | <b>-3.8%</b>  | <b>11.9%</b>  | <b>1.6%</b>  |
| Motor Vehicles                  | -10.6%        | 10.0%         | -9.8%         | 22.6%         | -1.6%        |
| Motor Vehicle Operators         | -1.7%         | -0.5%         | 0.8%          | 0.2%          | 4.9%         |
| Weight Distance                 | 0.0%          | 0.1%          | 2.1%          | 3.5%          | 4.4%         |
| Truck Decal Fees                | -1.4%         | 10.9%         | -16.6%        | 7.7%          | 43.6%        |
| Other Special Fees              | -16.0%        | 6.9%          | 0.6%          | 3.5%          | 3.3%         |
| <b>Nontax Receipts</b>          | <b>18.1%</b>  | <b>-7.4%</b>  | <b>-2.0%</b>  | <b>-47.6%</b> | <b>-7.6%</b> |
| Departmental Fees               | 4.5%          | 9.9%          | 21.8%         | -17.2%        | 9.4%         |
| In Lieu of Traffic Fines        | 20.6%         | -2.2%         | -29.9%        | 10.7%         | -12.8%       |
| Highway Tolls                   | -7.9%         | 11.1%         | -3.8%         | -40.0%        | -20.9%       |
| Investment Income               | 36.6%         | -20.0%        | -9.5%         | -74.2%        | -26.4%       |
| Miscellaneous                   | -1.5%         | 24.5%         | -41.3%        | 13.2%         | -13.1%       |
| <b>Redeposit of State Funds</b> | <b>288.1%</b> | <b>-26.4%</b> | <b>-51.2%</b> | <b>58.5%</b>  | <b>9.6%</b>  |

(Footnotes appear at end of tables)

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**Footnotes to Appendix B**

- <sup>1</sup> The cigarette tax is composed of a 3-cent excise tax per pack, a surtax of 26 cents per pack, and a one-cent per pack tax dedicated to cancer research. The 3-cent tax is divided into the General Fund which receives 2.5 cents and 0.5 cents is dedicated to the Tobacco Research Trust Fund. The 26-cent tax all flows to the General Fund, while the other one-cent tax is not included in General Fund revenues.
- <sup>2</sup> The cigarette floor stock tax was a one-time tax levied on cigarettes in inventory of wholesalers and retailers as of midnight, May 31, 2005.
- <sup>3</sup> Kentucky's bank franchise tax was instituted in July 1996.
- <sup>4</sup> Shares of stock were exempted from property taxes beginning FY97.
- <sup>5</sup> In FY97, an indeterminable amount of tangible property tax receipts were erroneously credited to real property tax receipts accounts.
- <sup>6</sup> Phase-in of Class A beneficiary exemption began July 1, 1995.
- <sup>7</sup> Prior to FY03, PSC Assessment was included in Departmental Fees.
- <sup>8</sup> The sale of NOx credits was authorized beginning in FY04.